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(The opinions expressed in articles in The Canadian Chartered Accountant are the opinions of the writers of the articles and are not necessarily endorsed by the Association.)

Editorial Comment

Trade between Canada and India

According to a recent issue of the *Commercial Intelligence Journal,** one of the outstanding developments in Canadian export trade last year was the marked increase in shipments to the Indian market. From the rank of fourteenth among overseas purchasers of Canadian products in 1939, the great empire of India at the close of 1940 had emerged as the seventh largest of Canada's trading connections. In commercial transactions this meant that there had been an improvement in export values from $5,396,000 in 1939 to $11,603,000 in 1940, or an increase of 115 per cent. One reason for this change is that whereas India's extensive requirements of a wide range of raw materials and manufactured products are to a considerable extent still supplied from Great Britain, the former large flow of goods from the continent of Europe has ceased entirely. Thus India has had to call upon the dominions and the other parts of the British Empire, the United States, South America, Japan and China to fill her needs.

*The weekly publication of the Department of Trade and Commerce, Ottawa.

Two Factors Encouraging Trade

There are, however, two prime factors influencing this trend in India's import trade. In the present war as in the war of 1914-18, industrial establishments in India have had to extend their operations in order to cope with the demand for military equipment as well as to supply the domestic market with manufactured goods formerly imported. The second factor is the wartime regulation of trade, the restriction of certain imports from non-Empire countries and the adoption, as in Canada, of rules governing the export of foreign exchange. Thus the market in India for the products of Canada and of other countries of the Empire has been stimulated.

What constitutes the exports of Canada to India? As an industrial country our Dominion is comparatively young, yet the variety of exports in this case is a real tribute to the versatility of Canadian industry. Among the long list of articles are hardware of different kinds, paper mill equipment, machine tools, toilet articles, paper products, railway materials, fresh and dried apples, several types of textiles, printing materials, plywood, instruments of various designs, electrical equipment and several beverages. The *Journal* makes the observation that this range of materials may be regarded as an indication of the expansion to be expected in such exports, and that it is a foregone conclusion that the demands from the Indian market for Canadian products will be still greater during the present year.

Accountancy in India

Probably few, if any, in Canada have an opportunity of reading *The Indian Accountant,* the recognized monthly publication of the profession in India. Mr. P. S. Sodhbans, a prominent member of the profession there and founder of that journal in 1922, is still a member of its editorial board and a frequent contributor to its pages. A recent issue of the journal contains an instructive address on "Accountancy in Relation to Commerce" given by Mr. Sodhbans at a meeting of the Rotary Club at Lahore. That part of his address in which he referred to the growth of the profession in India will be of interest to members in Canada.

The speaker recalled the ancient civilization of India and the extensive trade carried on by its inhabitants five

thousand years ago with adjacent countries and islands including China, Egypt, Asia Minor, Arabia and Persia. It is a natural corollary, he pointed out, that the Indian merchants had some system of accounting to record their business transactions; so to them is credited the invention of *bahi-khata*, or what we term the double entry system of bookkeeping, which proved the correctness of the recording of transactions on a scientific basis. In a paper on the history of accountancy presented at the fiftieth anniversary of the American Institute of Accountants in New York in 1937, Norman E. Webster may be said to have supported this statement of Mr. Sodhbans when he observed that "all or most of the few books on the history of accountancy have begun with Assyria and Egypt, leaped over many centuries to Italy in the days of Pacioli, and hurried across Europe with brief stops in the Low Countries to devote their space to the origin and growth of public accountancy in Great Britain."

The Companies Act and Auditors

Although the incorporation of companies in India dates back to the passage of company legislation in 1866, these companies at first were formed and controlled by European merchants. Both this Act and the revised Companies Act of 1882 provided that the accounts of incorporated companies must be examined and the balance sheet reported upon at least once in every year by one or more auditors. Because of these enactments the need for the public accountant arose and it was not long before accountants from Great Britain established firms in Bombay, Calcutta, Madras and Lahore to audit the accounts of these corporations and to carry on a general accounting practice. Before long the young men of India also entered upon the study and practice of accountancy. In 1913 the Indian Companies Act which was based largely on the English Companies Act of 1907 provided that no person could be appointed auditor of a public company in British India unless he held a certificate from the local government entitling him to function in that capacity. The Act further provided that the Governor General in Council in India could grant this certificate only to members of associations specified in the *Gazette* of India. Unfortunately, such an enactment encouraged the formation of a number of "mushroom"

associations whose members, like those of similar bodies in other countries, might have a very meagre knowledge of accounting. In consequence there existed considerable uncertainty over who were and were not qualified men. The outcome was that in 1930 the Indian Companies Act was amended to provide for the establishment of the Indian Accountancy Board which functions under the aegis of the central government of India. According to Mr. Sodhbans, the applicants who pass this board are, as in Great Britain and other progressive countries, well qualified members of the profession, are designated "Registered Accountants," and in time find themselves either permanently engaged by industrial organizations as controllers or managers, or acting as professional accountants in the capacities of auditors and commercial and financial advisers.

Education for the Profession

In his address Mr. Sodhbans made no reference to the steps, if any, taken by the profession in India to insure that each prospective registered accountant, before applying to write the examinations of the Board, has had a definite number of years of accounting experience with a practising member and during that period has followed a systematic course of study. While in most countries the regulations of the profession require the student-in-accounts to serve a period of apprenticeship in the office of a practising member, it appears from a study of these regulations that only in the profession in Canada is the candidate for examinations required to complete also a definite course of instruction in accountancy and related subjects, prepared and supervised by the Institute with which he is registered as a student.

The education of the student is assuming so important a part in the training of recruits for the profession of the chartered accountant that we take this opportunity of making some observations on the subject. At the outset may we state to the student that these are not to be considered as criticisms but will, we trust, be taken as an incentive to thoroughness and initiative and as an encouragement to a firmer resolution to succeed amid the difficulties besetting the path of every earnest student.

Discipline from Study

In laying the foundation for a career that demands as much from the individual as that of the chartered accountant, possibly the most unworthy wish we could offer or the most unfortunate hope we could express is that the student will have all plain sailing on his voyage of preparation. In the progress towards any worthwhile objective, every aspirant must expect to encounter difficulties and reverses. Many there be who bemoan such experiences. Instead of deploring his lot, however, the student should meet these difficulties with a resolute heart, for in the surmounting of them there comes a discipline which, everyone will agree, can be acquired in no other way. And this discipline—the product of perseverance, toil and endurance—he will recognize later as one of the major factors contributing to his success, whether he finds himself in professional practice or filling a responsible post in industry.

Maintaining Educational Standards

The hope has been generally expressed by the members of the Councils and by those having the responsibilities of office in the Provincial Institutes that at the examinations each year a large percentage of the candidates will be successful in passing. At the December 1940 examination a considerable number failed to reach the standard, and general disappointment was expressed by the Institute councils and by those more directly charged with the conduct of the examination. In their opinion the main reason for this failure was the situation arising from the war and the consequent distractions which had their effect on concentrated study.

During the war of twenty-five years ago the universities and other educational institutions made generous allowances in academic credits to those engaged in war efforts. Suggestions have been advanced within the past year that concessions be extended to our own students since the government and industry are calling for more and more qualified accountants. Should concessions or allowances be made now in the case of prospective members of our profession? As Sir Roger de Coverley, that fascinating character in Addison's *Spectator*, used to observe on any question of the moment, "Much can be said on both sides." We have met some men who were exempted from courses of study in the

last war and who now deplore the granting of those allowances by the universities which, in their case they say, excused them from studies later found to be essential in their particular callings. In contrast, there are those who hold that the benefits of a course in university or elsewhere depend in large measure on the student and who maintain that an ardour for study and a genuine desire for advancement do not have to be satisfied by attendance within college walls.

As already mentioned, because of the demand for qualified accountants, suggestions have been made in all sincerity by some members of the profession that extensive allowances be granted to candidates in the final examination. On the other hand it has been argued that any such concessions would result in a lowering of the standards of our profession, and that students on the whole would not welcome any exemption from the requirements for membership that would give room later to a possible stigma attaching to membership gained under such circumstances.

Where Responsibility Lies

It is in man's nature to make excuses. After every examination one hears a variety of reasons advanced by the candidate for his failure, and sometimes the fault is placed at another's door. The latest excuse of this nature coming to our ears is that the course of instruction provided by the Institutes was at fault.

To the older ones of the profession, who in their days of preparation had nothing to approach the extraordinary facilities for study provided by the Institutes for the students of today, an excuse of this nature appears feeble indeed. From our own experience in directing the extramural studies of a Canadian university between the years 1922 and 1931, where over a thousand students were registered annually in correspondence courses in the Faculty of Arts, we have no hesitation in saying that the present provisions made by most Provincial Institutes through correspondence courses for the education of their students are worthy of commendation. For the five years of his apprenticeship the course of the student is definitely outlined, thus affording to him who faithfully performs his part in this scheme every opportunity to succeed. Under this plan of study it is not long before the diligence and the capacity of the student

for faithful study, honesty in the preparation of his own written assignments, his ability to express himself clearly and his capacity for research are soon revealed and their true measure determined.

Referring again to our experience with extramural instruction during the period mentioned, there were plenty of cases of students (mostly school teachers throughout Canada) who before enrolling possibly had been under the impression that little work would be required. As they lacked diligence and application, they gave up after completing two or three assignments. The greater number, however, persevered, attended summer school sessions and after several years of study accomplished what they had set out to do. It is also worthy of comment that some of these also attended the winter sessions of the university for their final year, and in the examinations at the close invariably stood high in the lists and, in not a few instances, carried off the honours and prizes of their year.

Some students in cities across Canada are realizing that in their studies additional benefits can come from the formation of local groups for a series of organized discussions for a part of the year. In one Institute this lecture-discussion plan has been in operation for some time with good results, and has coupled with it class assignments. The proposed series would be under the direction of a practising member of the profession capable of stimulating thought, of guiding the group in its discussions and of imparting to the students his knowledge of the subject.

The Institutes have made provision this year for a Final examination to be written during the first week of June. With the pressure of the work of the first four months of the year now over, candidates will have time for concentrated study and review during the month of May. We wish all faithful ones success in the coming test. And may we quote a Latin maxim which we had posted in the classroom for the benefit of students twenty years ago? *Satis est discipulo octo horas dormire!* (To sleep eight hours is enough for a student.)

DISTRIBUTION AND CONTROL OF MANUFACTURING EXPENSE*

By D. R. Patton, Chartered Accountant, Montreal

MANUFACTURING expense includes all of the indirect expense charges entering into the fabrication of the product, which added to raw materials and direct labour will give the total cost of production. It consists of all the indirect costs of operating the manufacturing division of an industrial concern as distinguished from the direct costs, that is, charges which cannot be applied directly to the cost of the manufactured product but which must be apportioned to it in some indirect manner.

Manufacturing expense is also variously known as factory burden, manufacturing overhead, factory oncost and loading.

Elements of Manufacturing Expense—Manufacturing expense consists of three elements, namely,—

Indirect material—Material which does not enter into and become a definite part of the product which is manufactured. It includes factory supplies, scrap or waste material, small tools and dies, and also those items of direct material which are used in such small quantities that it is not practicable to charge them directly to the product.

Indirect labour—Labour which is not expended directly on the manufactured product. Included in this element are the wages of helpers, sweepers and truckers, factory clerks, inspectors, foremen and supervisors, employees engaged on defective or on experimental work and the lost or idle time of productive workers.

Indirect expense—Expenses incidental to manufacture incurred for the general benefit of all or a part of the plant and for the maintenance of manufacturing properties and equipment. These charges include factory rent, insurance, taxes, power, light and depreciation, maintenance, and repairs of factory buildings and equipment.

General Principles of Dealing Therewith—The elements of prime cost—direct materials and direct labour—as well

*An address recently given at a meeting of the Canadian Society of Cost Accountants and Industrial Engineers. Mr. Patton is President for 1940-41 of the Society.

as whatever items of direct expense there may be, are applied directly to the job or process. It is not possible to make such direct application of factory overhead, and some method must be evolved that will distribute it over production in such a manner that an equitable charge is made to the various units of the product. This process of distribution will include the following steps:

(1) Apportionment of manufacturing expense in equitable ratio to the various factory departments concerned, including both productive and non-productive departments.

(2) Apportionment of the costs of the non-productive or service departments to the productive departments.

(3) Distribution of the total overhead charge of each productive department over the various jobs, orders, articles, or processes of that department.

This distribution will give the amount per unit of production which must be added to the charges for direct material, direct labour, and direct expense, so that the total cost of the unit may be determined.

Manufacturing Expense Rate Predetermined—It is possible to apply the direct material and direct labour to the product at the time of expenditure. The total charge for factory overhead, however, cannot be determined until the close of the period—which is too late, since costs need to be calculated as soon as the work is completed. It is necessary, therefore, in order to complete the cost of the unit, to predetermine or estimate the proportion which must be added to take care of the manufacturing expense. This estimate is prepared on the basis of the expense incurred and distributed in the preceding period in accordance with the procedure outlined above, with such corrections and adjustments as may be necessary.

Actual charges for the current period are prepared at the end of the time; they are properly distributed to the departments and the product, and comparison is made with the estimated amounts as previously applied. Differences between actual and applied expenses are adjusted on the books only at the end of the year, but correction may be made on the face of the operating statements as they are prepared each month.

Accounting for Manufacturing Expense—Accounting for

manufacturing expense involves the use of controlling accounts in the general ledger. It is often preferable to use one primary controlling account to which, during the month, all items of expense are charged from the voucher register and general journal. The details, which agree with the totals of the controlling account, are recorded by the Cost Department on the various manufacturing expense orders. These expense orders analyze the manufacturing expense by classes of expenditure and show, also, the amount chargeable to each department.

(a) At the end of the month, the manufacturing expense orders are summarized by departments. From the information so supplied, and in accordance with the prevailing method of apportionment to departments, a journal entry is prepared transferring the expense from the total manufacturing expense control account to the various departmental expense accounts. The entry would be:

Dr. Maintenance department expense	$ 6,000	
Factory office expense	1,200	
Power plant expense	4,400	
Productive department A, manufacturing expense	8,000	
Productive department B, manufacturing expense	3,600	
Productive department C, manufacturing expense	11.000	
Cr. Manufacturing expense control account		$34,200

(b) The next step is the distribution of the expenses of the service or non-productive departments to the productive departments on some fair basis. As some service departments may render service to other service departments it is necessary that the transferring entries be made in such order that, as far as possible, the total cost of each service department will be secured before transfer is made to other departments. The entry to transfer the maintenance department expense (using the figures as above) would be:

Dr. Factory office expense	$ 200	
Power plant expense	900	
Productive department A, manufacturing expense	1,800	
Productive department B, manufacturing expense	1,100	
Productive department C, manufacturing expense	2,000	
Cr. Maintenance department expense		$6,000

The entry to transfer the factory office expense would be:

Dr. Power plant expense	$ 220	
Productive department A, manufacturing expense	360	
Productive department B, manufacturing expense	180	
Productive department C, manufacturing expense	640	
Cr. Factory office expense		$1,400

The entry to transfer the power plant expense would be:

Dr. Productive department A, manufacturing expense	$ 2,480	
Productive department B, manufacturing expense	1,200	
Productive department C, manufacturing expense	1,840	
Cr. Power plant expense		$5,520

The total expenditure for manufacturing expense has now been charged to the expense accounts of the producing departments.

(c) It is necessary that the accounting system show not only the amount of expense *incurred* by each department as recorded above, but also the amount *distributed* by each department to its production in accordance with the rates set up.

At the close of each month a summary is prepared for each department showing the amount of manufacturing expense distributed to production during the month. The following journal entry would be made:

Dr. Manufacturing expense in process	$34,520	
Cr. Applied manufacturing expense department A		$12,280
Applied manufacturing expense department B		6,580
Applied manufacturing expense department C		15,660

The difference between each department's accounts for manufacturing expense and for applied manufacturing expense shows the amount which has been over or under applied during the period, and for the fiscal year to date.

This difference may be carried each month as an adjustment to the operating statements. Adjustment is not usually made on the books until the end of the fiscal year. At that time the applied expense accounts are closed into the corresponding departmental expense accounts and the balance representing over or under applied expense is carried as an addition to, or deduction from, the cost of goods manu-

factured and sold and the inventories of work-in-process and finished goods. Over the year the differences should be small; on account of seasonal variations, however, the monthly differences may be proportionately larger. The rates of applying the manufacturing expense to production are not usually changed during the year unless there is a very substantial difference.

The following schedule shows in outline the application of the entries recorded above:

Particulars	*Service Departments*			*Productive Departments*			*Totals*
	Maintenance Department	Factory Office	Power Plant	A	B	C	
Total month's expenditure for mfg. expense	$6,000	$1,200	$4,400	$8,000	$3,600	$11,000	$34,200
Distribution of maintenance dept. expense	6,000	200	900	1,800	1,100	2,000	
Distribution of factory office expense		1,400	220	360	180	640	
Distribution of power plant expense			5,520	2,480	1,200	1,840	
Total manufacturing expense charged to productive departments				12,640	6,080	15,480	34,200
Applied manufacturing expense				12,280	6,580	15,660	34,520
Over-applied expense per month				—360	500	180	320

Apportionment of Manufacturing Expense to Departments

Factory Departments—Factory departments are naturally grouped under two classes, namely, (a) productive or manufacturing departments, that is, those departments engaged directly in the manufacturing of the product, e.g., moulding, grinding, finishing, and assembling departments; and (b) non-productive or service departments, or those departments rendering service necessary to the processes of manufacture, e.g., cost department, drafting room, power plant, storeroom, plant maintenance department and repair shop.

Bases of Apportionment—Many items of manufacturing expense are incurred within specific departments and may be charged directly to them, but a very large number

are of a more or less general nature and apply to several departments or to the factory as a whole. These charges must be apportioned over the various productive and service departments in ratios that will reflect as nearly as possible the part justly applicable to each.

Any of several principles of distribution may be followed, e.g., (a) service or use, (b) arbitrary, based upon study of conditions, (c) ability to pay, and (d) efficiency or provision of incentives. We shall consider only those bases falling under the first two.

Direct—whenever possible
Floor space or cubic capacity—(due consideration to location and floor)
Value of machinery and equipment
Number of machines
Horse-power of machines
Horse-power hours of machines—if available.
Radiation
Labour cost—(direct and indirect or direct only)
Labour hours—(direct and indirect or direct only)
Number of employees
Value of materials and supplies purchased
Value of materials and supplies issued from stores
Value of material stock—(a) first of period, (b) last of period, or (c) any average
Quantities of production
Total manufacturing expense already charged to departments
Arbitrary.

The following are examples of the apportionment of various items of manufacturing expense:

Nature of Charge	*Basis of Apportionment*
Rent, taxes, insurance, depreciation and maintenance of factory buildings	Floor space or cubic capacity
Insurance and depreciation on machinery	Value of machinery
Insurance on stock	Actual or average inventory of merchandise and supplies
Workmen's compensation insurance	Labour cost
Superintendence	Number of employees, or arbitrarily on basis of time spent
Inspection	Quantity of production
Power	Meter readings or h.p. hours of machines

Light	Meter readings or number of lamps or watt hours of lamps
Heat	Floor space, cubic capacity or number of feet of radiation
Freight and cartage inward	Value of materials and supplies purchased
Storeroom expense	Value of materials and supplies issued
Direct material which is not applied directly	Quantity of production

Apportionment of Service Department Costs—After the manufacturing expense has been transferred to the departmental expense accounts, it is necessary to transfer the total costs of the non-productive or service departments to the departments to which service has been rendered.

The costs of a service department should preferably be applied to the departments which it serves in proportion to the service rendered to such departments. It may be possible in some cases to measure this service definitely by means of meters, or it may be possible to make direct charges for specific items of work performed, as for repair orders. In the greater number of cases, however, it will be necessary to use some method of apportionment. The bases which may be adopted are the same as those noted above, and here, as before, great care must be taken to ensure that the base used reflects, in proper proportion, the service rendered.

Most non-productive departments render service to other non-productive departments as well as to productive departments. It will be necessary, then, to disregard certain interrelated service costs. In order that these may be reduced to a minimum it is necessary to so arrange the order of distribution that the costs of those departments which render service to the greatest number of other departments and receive the least service from others are distributed first, and so on down the line.

This order of distribution will be continued until all the service costs are charged to the producing departments.

Distribution of Manufacturing Expense to Production

Importance of Correct Methods—After manufacturing expense has been apportioned to productive departments, there still remains the difficult problem of distributing it, within the departments, to the units of production.

It is essential that correct methods of distribution be

used, especially since the modern tendency is to increase rather than diminish the proportionate amount of manufacturing expense. Erroneous methods of distribution may result in errors in costs that will seriously affect the profits of the business.

It is not sufficient merely to distribute all of the manufacturing expense over all of the products. Each individual product must receive its correct share or its cost will be incorrectly stated and prices and gross profits will be directly affected. The charge to each product must represent correctly the extent to which manufacturing expense has been utilized in its production.

Methods of Distribution—The following are the more important methods used to distribute manufacturing expense to production:

1. Prime cost method—Under the prime cost method a definite percentage is added to the cost of direct material and direct labour to cover manufacturing expense.

Suppose, for a given period, the total material cost was $40,000, the total labour cost $50,000 and the total manufacturing expense $18,000. Then

$$\frac{\text{Manufacturing expense \$18,000}}{\text{Material cost \$40,000} + \text{Labour cost \$50,000}} = \text{20\% of prime cost to be added to cover the manufacturing expense.}$$

Thus, if the material cost of an article is $15.00, the labour cost is $13.00 and the overhead rate is found to be 20% of the prime cost, the total cost of the article would be:

Direct material cost	$15.00
Direct labour cost	13.00
Prime cost	28.00
Manufacturing expense (20% of prime cost)	5.60
Total cost	$33.60

This method of distribution is applicable only under comparatively simple conditions of manufacture, where the articles are operated on to practically the same extent, and where neither material nor labour is subject to wide variations in cost. Its chief advantages are its simplicity and the fact that few records are required. The results, however, are apt to be very inaccurate if uniform conditions

do not exist, noticeably in cases where material costs vary considerably and where some articles require more processing and more application of labour than others.

There should be a definite relation between the manner in which manufacturing expense is incurred and that by which it is distributed to production, but there is no logical connection between the amount of manufacturing expense and the cost of material. Too much manufacturing expense is applied to articles containing high-priced material and too little to those containing low-priced material.

2. Productive labour cost method—The productive labour cost method is based upon the principle that manufacturing expense is incurred in proportion to the cost of the labour involved.

Suppose, for a given period, the total productive labour cost was $40,000, and the total manufacturing expense, $20,000. Then

$$\frac{\text{Manufacturing expense \$20,000}}{\text{Productive labour cost \$40,000}} = \text{50\% of productive labour cost to be added to cover manufacturing expense.}$$

On the above basis, suppose a man works 14 hours at 75c per hour on an article and that the direct material in this article is worth $5.00.

The production cost of the article would be:

Direct material cost	$ 5.00
Direct labour cost (14 hours at 75c per hour)	10.50
Manufacturing expense (50% of $10.50)	5.25
Total cost	$20.75

The chief advantage of this method is its simplicity and the ease with which it may be applied. In order to have it function properly there should be uniformity of product and little variation in wage rates. Labour should be the dominant factor. More accurate results are obtained when distribution rates are used for each department rather than when a general average is used.

The fact that the amount of expense applied to production is affected by the rate of wages paid is a disadvantage and this is especially marked under bonus systems of wage payment.

In departments equipped with machines, care must be

exercised to see that labour costs of machine operators are uniform or that if they vary, the variation is in proportion to the value and output of the machine. If a low priced man is operating an expensive automatic machine and a high priced man is working at a cheap machine where skill is important, the charges for manufacturing expense under this method will not only be inaccurate but will actually be reversed.

3. Productive labour hour method—The productive labour hour method of distribution applies the basis of time rather than that of cost to the distribution of manufacturing expense. Expense is applied to production at a given rate for each hour of direct labour used in turning out the product.

Suppose the number of working hours of direct labour to be 80,000 and the manufacturing expense $30,400. Then

$$\frac{\text{Manufacturing expense \$30,400}}{\text{Productive labour hours 80,000}} = \text{38c per hour to be charged to the product for each productive hour of work spent upon it.}$$

Using this method and the above rate, the cost of the article mentioned in section 2 above would be determined as follows:

Direct material cost	$ 5.00
Direct labour cost (14 hours at 75c per hour)	10.50
Manufacturing expense (14 hours at 38c per hour)	5.32
Total cost	$20.82

This method of distribution, as well as all other methods in which the time factor is taken as the base, considers that manufacturing expense is incurred in proportion to the passage of time. The correctness of this theory is seen by a study of many of the principal items of manufacturing expense—rent, depreciation, taxes, insurance, light, heat and maintenance—all of which accumulate according to time. Hence distribution on the basis of time is usually much more equitable than on the basis of material or labour costs.

The advantage of this method over the productive labour cost method is readily seen in comparing the amount of overhead which would be applied by each method to similar operations in which the workmen receive different rates of pay or in which bonus schemes of payment are used.

The results under the direct labour hour method are uniform and usually much more satisfactory for purposes of comparison and for fixing selling prices. The field to which this method may be adopted is wider but there still remain certain limitations, viz., labour should be the dominant factor and the product should be uniform. Where machines are used the same precautions must be taken as in the case of the previous method except that the wages of the operators may be disregarded.

4. Machine rate or production centre method—Machine rate methods are based on the principle that overhead expense accrues in proportion to the number of hours of machine operation.

The department is taken as the unit whenever possible but if a department includes different types of machines or performs different processes, further subdivision must be made. These subdivisions, including one machine or a group of like machines, are termed production centres and are used as the basis of accumulating manufacturing expense. If possible the production centre coincides with the department.

The production centre is charged not only with its proper proportion of manufacturing expense but also usually with the direct labour cost applicable to it. (In some cases an addition is made to cover general administration charges.) When all the charges have been made the total labour and overhead cost of operating the machine centre has been calculated, distribution of the total must be made over its own product. The total machine operating costs are divided by the total number of machine operating hours, giving the rate per hour to be charged to the product for work done in that department.

The formula for determining the machine or production centre hourly rate would be:

$$\frac{\text{(Total cost of Productive labour)} + \text{(Total amount of manufacturing expense applicable to production centre)}}{\text{Total number of machine operating hours}} = \text{Production centre rate to be applied to product for each hour of machine operation.}$$

The final factory cost of an article passing through several machine processes is arrived at by totalling the labour and overhead costs incurred in each separate process and then adding the cost of the direct materials.

Variations of machine rate methods are (1) Fixed machine rate method, which provides a predetermined rate, estimated on the basis of all machines running full time,—variations from the estimate being taken up by a supplementary rate; and (2) Sold hour method, by which the services of the department are "sold" for so much an hour, based on the labour and overhead cost of the department.

Whenever the machinery is of more importance than the human element and where the workman is merely a tender or tool of the machine, machine rate plans are the most equitable for making distribution. On the other hand, where considerable skill on the part of the workman is required in making the product and where the machine is of secondary importance, either the productive labour cost method or the productive labour hour method is usually the more satisfactory.

Other methods of distribution which may be used are (a) the quantity or unit of output method, and (b) the standard or the normal burden method.

Control of Manufacturing Expense

Manufacturing expenses should be controlled as carefully as the other two elements of cost—direct materials and direct labour—are controlled. It has always been found easier to increase overhead than to decrease it, and the management is continually striving to keep it within limits. Clerical and indirect labour tends to rise, supplies are drawn excessively, lights are used when not required, machines are left running when not in use, long distance telephone and telegraph are used when not necessary, and spoilage, travel and maintenance increase with little encouragement.

Variable and semi-variable expenses are the groups over which the greatest control must be exercised, but the so-called fixed charges may also benefit from close examination.

Effective methods used to achieve overhead expense control include:

(a) The education and supervision of personnel—through literature, employees' meetings, discussions among factory personnel and supervisors, and frequent inspections by shop managers.

(b) Provision of incentives to departmental heads or other

plant executives for limitation or reduction of overhead in their departments.

(c) Constant investigation of more efficient methods which would result in overhead savings, and

(d) Maintenance of control through expense budgets.

Control through the medium of plant expense budgets can be very effective. Monthly comparisons should be made by the cost department of budgeted and actual figures and the information supplied to the management for prompt investigation.

The use of flexible budgets, estimating overhead for each volume of production, renders such control more direct.

Segregation of costs of idle plant capacity so that such costs may be brought clearly to the management's attention should have an important bearing on the reduction of excessive cost from that cause where that is possible at all.

THE WAR SAVINGS PLAN

of the Hollinger Consolidated Gold Mines, Limited

By D. L. James, Chartered Accountant,
Timmins, Ontario

THE management of the Hollinger mines has had in operation for almost a year a plan for employees' savings in the form of war savings certificates that is far reaching in that it requires of each employee a regular and generous purchase of war savings certificates. Because of the large number of men employed—at present in the neighbourhood of 3,500—and because of the nature of the plan, it has been necessary to devise a system for handling the purchases that would give to the management a complete and accurate record at the minimum administrative cost.

Outline of Plan

Prior to the war the company had in force an insurance savings plan for its employees whereby the company contributed in direct proportion to the employees in certain stated amounts, which sums accumulated at interest. The present war savings plan is to a large extent a temporary discontinuance of the insurance plan in favour of the one described below.

There are three plans available to employees to which the company contributes. Under plan A the company contributes \$1.00 for each \$1.00 from the employee and under plans B and C the company contributes fifty cents for each \$1.00. The allocation of the employee's subscription is automatic, the first dollar going to plan "A," the second to plan "B" and the third to plan "C." The employee may contribute, therefore, from one to three dollars per pay and it is applied accordingly. Once the employee subscribes to the plans available to him the stated amounts are deducted from earnings each pay day. If the employee is absent from work for any reason so that he has no earnings at pay day, the plan is suspended for that period but functions again immediately he returns; he merely loses the purchases of war savings certificates for that period.

An important stipulation of the plan is that the company's contribution is payable to the employee only if he remains in the employ of the company for at least five years. On the occasion of an employee becoming a five-year man the company purchases for him all certificates due according to the subscribed plans and in future he receives the company-purchased certificates at the time he receives his own purchases. If a man leaves the employ of the company before serving five years, he keeps the certificates of his own purchase but does not receive any company contribution to the plan.

Mechanics and Accounting of Plan

The money for the purchase of war savings certificates is obtained from employees by payroll deduction. In the payroll deduction sheets two columns are kept; the one indicates what has been taken from the employees' earnings, the total of which is paid out by payroll cheque to the Receiver General of Canada, and the other shows the company's contribution. In this latter column the contribution for five-year employees must be segregated from that for the newer employees and, accordingly, two totals are obtained, the amounts of which are paid by two payroll cheques—one being issued to the Receiver General for the company's contribution to five-year employees, and the other, made payable to the company, being deposited in the company's general bank account and credited to a special reserve account. This reserve provides for the necessary

purchase of certificates as soon as employees complete the required five years of service.

As well as being shown on the deduction sheets, the total of the column for company's contribution is added to the employees' gross earnings on the payroll. In this way the proper taxable earnings are obtained for employees and at the same time the company's contribution can appear in the payroll deductions side by side with the employees' purchases. This affords ready checking of the payroll records to determine that the company contributes only as required under the subscribed plans for each employee. From the standpoint of audit and internal check this feature is valuable.

The information on the payrolls with respect to the plan is accumulated on cards 8″x5″ as illustrated at the end of this article. The cards are kept in the same order as the names appear on the payroll and it becomes a simple matter to post the information thereon. Every eight weeks the cards are closed and certificates are purchased; it is on these occasions that the cards are written up by entering the date stamp in the "to" and "from" columns and extending the amount of certificates. This procedure is simplified considerably by making an entry on the card only when the regular deduction is missed or when an extra purchase is made at the request of the employee. Illustration "B" shows by use of the date stamp that on the pay day of October 6th the regular purchase was missed. Had there been no omission, the stamp would have read October 20th instead.

Illustration "A" is that of an employee who has been with the company for over five years and has worked continuously. Every two weeks $3.00 was deducted from his pay under plans A, B and C, to which the company contributed $2.00. Therefore at the end of every eight weeks his total, including the company's contribution, amounted to $20.00 which permitted the purchase of a $20.00 certificate (maturity value $25.00). This example illustrates the typical employee, except that more recently there are entries in the "extras" columns as well.

Illustration "B" is that of an employee who has not spent five years with the company; therefore, in the "total" column nothing appears for company contribution. The card does show, however, what the company should have in its

reserve account for this employee (19 x $1.50—under plans A and B only). The special reserve account in the general ledger controls the cards for this item. It will be noted that this employee becomes a five-year man on 20th May 1941. At that time the company will purchase for him the arrears of certificates by drawing a cheque on general bank account payable to the Receiver General and charging it to special reserve, and the company's contribution will then be entered on the card in the "total" column. If this employee should leave the employ of the company before 20th May 1941, a journal entry would be made taking the company's contribution into revenue by charging the special reserve account.

When certificates are purchased it is necessary to prepare a list showing the registration and denominations required for each employee, the information for which is obtained from the cards. To reduce the frequency of this task and also to permit the accumulation of sums which will buy as few stamps as possible, the purchasing, as we have already stated, is done every eight weeks. The total of the list must agree with the cheques obtained from the payroll and the reserve fund, and it is this feature which provides the automatic check on the accuracy of the cards.

When the certificates come in from the Receiver General, the numbers and amounts are entered on the reverse side of the employees' cards. If the employee takes the certificate he signs for its receipt opposite the certificate number; or if he leaves it with the company for safe keeping, the card performs the function of a safety deposit ledger.

In summary of the foregoing, it would appear that this company has in operation an effective stimulus for its employees to save, and thus assists them not only to establish for themselves an independent future but also to contribute to the national war effort. The plan carries with it certain complications which add to the mechanical work of administering the fund but, in the opinion of the writer, there has been devised an effective system of internal check and of recording the information in a manner that is as simple as is possible.

Illustration "A"

Payroll No. 714 Employee John Oldtimer Date hired: Oct. 31st, 1921

WAR SAVINGS CERTIFICATE PLEDGE

From	To	Deductions No. & Amt.	Extras From	Extras To	Deductions No. & Amt.	Total Incl. Co. Contrib.	Stamps	Denominations 4	Denominations 8	Denominations 20	Denominations 40
June 30, 1940	Aug. 25, 1940	4 — 3.00				20.00				1	
Aug. 25, 1940	Oct. 20, 1940	4 — 3.00				20.00				1	
Oct. 20, 1940	Dec. 15, 1940	4 — 3.00				20.00				1	
Dec. 15, 1940	Feb. 11, 1941	4 — 3.00				20.00				1	
Feb. 11, 1941	Apr. 8, 1941	4 — 3.00				20.00				1	
Apr. 8, 1941											

(reverse side of card)

No. 714 John Oldtimer

Certificates		*Signature*	*Date*
25.00	CC52962	John Oldtimer	9/10/40
25.00	CC70502	John Oldtimer	26/11/41
25.00	CC82134	John Oldtimer	3/ 1/41

Illustration "B"

Payroll No. 901 — Employee John Newcomer — Date hired: May 20th, 1936

Date of participation: May 20th, 1941

WAR SAVINGS CERTIFICATE PLEDGE

From	To	Deductions No. & Amt.	Extras From	Extras To	Deductions No. & Amt.	Total Incl. Co. Contrib.	Stamps	Denominations 4	8	20	40
June 30, 1940	Aug. 25, 1940	4 — 2.00				8.00			1		
Aug. 25, 1940	Oct. 6, 1940	3 — 2.00				6.00	2.00	1			
Oct. 20, 1940	Dec. 15, 1940	4 — 2.00				8.00			1		
Dec. 15, 1940	Feb. 11, 1941	4 — 2.00	Dec. 15, 1940	Dec. 31, 1940	1 — 5.00	13.00	1.00	1	1		
Feb. 11, 1941	Apr. 8, 1941	4 — 2.00				8.00			1		
Apr. 8, 1941											

(reverse side of card)

No. 901 — John Newcomer

Stamps		*Certificates*			*Signature*	*Date*
2.00	5.00	BB103521	10.00	CC49321		
			10.00	CC52108		

POPULATION AND THE WHEAT PROBLEM

By R. W. Gardner, Chartered Accountant,
Lethbridge, Alberta

THE province of Alberta, with an estimated crop this year of 190 million bushels of wheat, could supply the domestic requirements for food purposes of the entire Dominion four times over. Confronted with the difficulty of disposing of their surplus in these distressing times but encouraged by the government's guarantee of a minimum price, the farmers of Alberta seeded to wheat in 1940 an area 288,000 acres in excess of that seeded in the previous year. In the Dominion as a whole stocks for the current year, including 300 million bushels carried over from the 1939-40 season, were about 847 million bushels of which some 722 millions were available for export and carry over. If the average production during the four years 1941 to 1944 should turn out to be 400 million bushels, as compared with 547 last year, and assuming that during that period the average yearly export could be maintained at 200 million bushels in spite of the loss of shipping through enemy action and the reduced efficiency of tonnage arising out of the necessity for convoy, a simple computation will demonstrate that the total available stocks after the harvest of 1944 would be in the neighbourhood of 1147 million bushels. As the present stocks tax the storage capacity of the country to the limit, it is obvious that greater storage facilities will have to be prepared to take care of the accumulation of grain during the next four crop seasons. To make matters worse it seems impossible that the prospect of exporting 200 million bushels can be realized so far as the current season is concerned, for, according to a recent report of the Dominion Bureau of Statistics, the overseas export clearances for the season to 21st February — almost seven months — were only 61,115,000 bushels as compared with over 80 million bushels in the previous crop year. On this basis the exports for the whole year are likely to be nearer 125 million bushels than 200. At another estimate, taking a much reduced average production of 300 million bushels and a fairly high annual export of 150 million bushels, there would still be, after the harvest of 1944, an accumulation of about 950 million bushels. (See table at end of this article). It has been de-

clared more than once by public speakers that the wheat will all be required after the war by the starving people of Europe, but it does not work out that way in actual experience. By no stretch of the imagination can it be conceived that the people of Europe could make up in one year or any period of years for the deficiency of their rations during four or five years of privation. It is physically impossible for one thing, even granting that the people have the wherewithal to pay for the imports.

Western Farmer in Quandary

No business man would persist in adding to his stocks if the goods already on his shelves were finding little or no sale. Why then does the farmer continue to grow immense quantities of wheat knowing only too well that the market for it is already glutted? The answer is that in the absence of practical direction, and because he is the victim of circumstances over which he has no control, he simply does not know what else he can do; and he will continue to grow wheat to a greater or less extent unless he is interdicted in some way from doing so.

Something should be done to call a halt to over-production before seeding begins, but up to the time of writing the government has made no declaration of its policy or intention in the matter. Nature may step in and take a hand with a series of dry years, but this would be cold consolation for the farmer. The people of Canada might be persuaded to eat more wheaten bread, but at the best this could not absorb more than an additional 10 million bushels, and in order to achieve it every man, woman and child would have to consume an extra 2½ one-ounce slices of bread on an average every day of the year.

Efforts will be made to attain greater diversity of crop, but this cannot be carried to any great length without creating over-production in other commodities. Wheat can be produced with the help of modern machinery with a minimum of labour, but many other crops which might advantageously be enlarged, such as sugar beets and flax fibre, require adequate supplies of labour and water. For example, Alberta with two factories in operation, supplies in the meantime only 65 per cent of the sugar requirements of that province.

Government's Policy for 1941

Since the above lines were prepared, the government has announced its policy for the coming season. It consists of the combination, with certain limitations, of two diametrically opposite principles. The first, a fixed price, is in effect a bonus on wheat and would encourage greater production; the second, a bonus on summer-fallow unaccompanied by any fixed price for wheat, would be in effect a premium on reduced wheat acreage, and would naturally tend to reduce production. The combination of the two has been rationalized (1) by pegging the price at 70 cents, basis Fort William, and restricting deliveries to 230 million bushels, (2) by paying a bonus of $4 per acre, not on all summer-fallow, but on the increased acreage summer-fallowed in comparison with 1940, and (3) by paying a bonus of $2 per acre on land taken from wheat and seeded to coarse grains or grasses. While this sets a limit to the responsibility of the government it gives no assurance that a greater quantity of wheat will not be threshed, because the growers are still left a free hand in the matter. It will, therefore, require the wholehearted co-operation of every producer if the desired objective is to be achieved.

It seems inevitable, therefore, that the government must continue to stand behind the wheat growers to some extent. Not to do so would result in a state of chaos, disintegration and demoralization.

Greater Population—One Solution

There is a solution to our wheat problem and to some of our other problems as well, although it is at the moment impossible of fulfilment, and it is to be found in a very substantial increase in our population. The present population of Canada is but little more than that of the United States in 1820, and about half what it was in the United States in 1850. When one considers that the population of England is 700 to the square mile and in Canada only about 3, there seems to be something radically wrong. Herein lies a menace to the peace of the world at a time when aggressive states are casting greedy eyes around for living room for their nationals. It is also a positive threat to our national existence in its relation to defense in time of war. Thirty years ago the people of this country had glowing visions of a population of 50 millions within a decade or so.

Today the suggestion of even 22 millions would more than likely be met with a smile of derision or a stone wall of scepticism. It would be characterized as a "pipe dream." The easy optimism of the older generation has been frustrated and the conditions which have obtained since the war of 1914-18 have not been conducive to sustained optimism in the rising generation. It seems, however, that Canada, having accepted the call to a high crusade as co-defender of the faith by the side of the mother country, should now experience a fresh revelation of her future greatness as a nation. Where there is no vision the people perish!

The belief is gaining ground rapidly that there will be a large exodus of people from the Old Country after the war. It is possible, and by no means improbable that circumstances may arise which will afford us an opportunity of doubling our population at short notice. Is it not time that serious consideration be given to the subject? To put off until the occasion emerges will be too late because it may occur suddenly. The point to be emphasized is that if we are not ready to embrace the opportunity when it arises, if we are not willing and prepared to accommodate the people, they will go elsewhere—to Australia, New Zealand, South Africa or the United States.

Possible Results of Increased Population

Not everyone will be pleased with the prospect unless he is properly enlightened as to the consequences. The farmer may object that there is no use of bringing out more people to go on the land, when we are unable to dispose of what we grow at the present time. Organized labour may say in effect: what good purpose can be served by bringing more industrial workers into the country? It can only result, after the first flush of prosperity is over, in an increase of unemployment.

But would it necessarily mean an increase of unemployment? And even if it did lead to increased unemployment and the concomitant cost of relief, would we be any worse off than before? Might we not, on the contrary, be very much better off? The larger population would solve our railroad problem; it would help greatly to solve the agricultural problem; and it would alleviate the burden of national and municipal debt by spreading the incidence of taxation.

In the dislocation of employment at the close of the

war the new construction necessary to accommodate the influx of people would go far to tide over the period of transition. Imagine what would be required in the way of housing, schools, hospitals, churches, theatres, flour mills, packing plants, textile industries, electric power and so forth. The whole range of our economic and social activities with few exceptions would be affected.

If our present population could be doubled, the effect on agriculture would be invaluable by creating a home market for the products of the farm. It would mean an immediate home demand for an additional 48 to 50 million bushels of wheat for food, a home market for another 7½ million head of cattle, sheep and swine, and for another 20 million pounds of wool, and an outlet for almost double our present consumption of dairy produce, sugar beets, vegetables and fruits. As a matter of fact, except in the items of wheat and bacon, we could not take care at the present time of so many people without decimating our herds or importing stock from abroad. The relatively enormous increase in the livestock requirements would necessitate a corresponding increase in the land used for range or pasture, and for the cultivation of greatly increased quantities of grains and hay for feed, thus making extensive encroachment on the acreage now devoted to wheat.

To the layman the present situation with regard to wool appears to be anomalous. It seems extraordinary that a great agricultural country like Canada should not supply more than one fourth of its domestic requirements in wool. The explanation given is that the mills are not equipped to handle the short-staple merino, which is the principal product of the country, and consequently three-fourths of the wool required—some sixty million pounds annually—has to be imported from Australia or elsewhere. A reasonable comment on this, in the present connection, would be that, if our population were increased sufficiently to warrant the installation of new machinery, all such machinery should be capable of spinning the short staple, as is the case now in other countries, and that in the meantime every encouragement should be given to the production of a class of cross-bred sheep which would yield a fleece giving a staple suitable for present domestic demands.

Whether the argument of population is susceptible of

proof remains to be seen. A bare assertion of opinion for or against is not sufficient. A careful study of the subject is urgently needed, and for this purpose information should be assembled by questionnaire addressed to representatives of the taxing authorities, the railroads, various classes of industry and so forth, particularly as to the probable effect on these interests of a substantial increase in the country's population.

Wheat Production of Canada

Basis in millions of bushels:	*Estimate No. 1*	*Estimate No. 2*
(1) Annual production—1942-44	400	300
(2) Domestic consumption	125	125
(3) Export	200	150

1940					
August 1	Carry over		300		300
October 31	Wheat threshed		547		547
October 31	Total stocks		847		847
1941					
August 1	Deduct:—				
	Domestic consumption	125		125	
	Export	200	325	150	275
August 1	Carry over		522		572
October 31	Wheat threshed		400		300
October 31	Total stocks		922		872
1942					
August 1	Deduct:—				
	Domestic consumption	125		125	
	Export	200	325	150	275
August 1	Carry over		597		597
October 31	Wheat threshed		400		300
October 31	Total stocks		997		897
1943					
August 1	Deduct:—				
	Domestic consumption	125		125	
	Export	200	325	150	275
August 1	Carry over		672		622
October 31	Wheat threshed		400		300
October 31	Total stocks		1072		922
1944					
August 1	Deduct:—				
	Domestic consumption	125		125	
	Export	200	325	150	275
August 1	Carry over		747		647
October 31	Wheat threshed		400		300
October 31	Total stocks		1147		947

DEMOCRACY*

By Hon. T. Damien Bouchard, Minister of Public Works of the Province of Quebec

MUCH has been said and still more is being heard today about democracy. In some quarters—but fortunately very restricted ones, where in the sky of the mediaeval ages only the very thin silver lining of the black clouds is seen without even noticing those heavy clouds that have enshrouded progress of civilization in their darkness for nearly a thousand years—democracy is being cursed as the only cause of all our misfortunes.

Democracy is not a perfect system of government; nobody knows of a perfect system but we in the British Empire believe, as it is believed in France, in all the small countries that have already been crushed under the heels of the modern barbarians now known as Nazis, in United States and in all the republics of South America, that democracy even with its shortcomings is the system most suited for free men to live under. Democracy as it actually exists is the natural evolution of the mass of individual and corporate liberties that have been acquired for humanity by Magna Charta, the Reformation and the French Revolution.

The enemies of democracy in their efforts to destroy it know nothing better than to have the people confound it with ochlocracy, the perversion of democracy. This term is not very familiar to our ears but what it represents is far from being unknown in our country. Ochlocracy is what we popularly call mob rule and it is this mob rule or mob law that the Hitlerites, the Nazis, the Fascists, the reactionaries of every type and garb, represent as democracy.

Democracy in its essential definition is the form of government of a state run by the people and for the people. But the aggregate of this people, that is, society, is not composed only of its lower elements, and a government to be democratic must be in the majority, as society is, composed of honest, law-abiding and public spirited members. Then we can expect to have a fairly good administration by which the rights of every class of the people will be

*This is an address, in part, given by Hon. Mr. Bouchard at a Dinner of the Society of Chartered Accountants of the Province of Quebec held in the Mount Royal Hotel, Montreal, on Monday evening, 10th March 1941.

respected and protected, if need be. And this because of the superiorities of this form of administration over the old but still menacing despotic forms of governments.

Blackstone, the eminent English jurist, has pointed out those superiorities when he wrote: "In democracy where the right of making public laws resides in the people at large, public virtues, or goodness of intention is more likely to be found than either of the other qualities of government." . . . . "Popular assemblies are frequently foolish in their contrivance, and weak in execution; but generally mean to do the thing that is right and just, and have always a degree of patriotism or public spirit."

The Putrefaction of Democracy

It is this very excellent form of government that the so-called new-reformers of today represent as a system that should be destroyed, and to try to prove that it is bad they show us the wrongdoings of ochlocracy which is but the putrefaction of democracy.

Democracy degenerates in ochlocracy when representation and power come into the hands of selfish demagogues and agitators ready to ruin their city and country to serve their own personal or class ends.

Ochlocracy is another form of despotic tyranny and certainly as pernicious, if not more so, than the one experienced in the ages of slavery. It is the tyranny of the lower classes, to whose greed and bad instincts the leaders have appealed to secure power. When ochlocracy exists, tyranny, which has kept the world in a state of economic and intellectual debasement for over eight hundred years during the dark ages, has just been moved from the few to the many, and the abuses of the multitude, far from being less harmful to the individual and to the state than those of the former privileged few, have been been in many circumstances much more injurious.

The sadder aspect of this political situation is that it cannot exist without going from bad to worse. It cannot last long owing to the disintegrating germs it carries in itself and, as extremes meet in politics as in many other spheres of human endeavour, soon dictatorship appears and with dictatorship all the evils of the old reactionary governments to the detriment of the individual and to the benefit of the privileged few.

How can we restore the former prestige of democracy and prevent it to be destroyed by its enemies? To attain this end we have to stop its sliding towards ochlocracy at any cost. This will be done by good government.

One of the main factors of the disfavour in which democracy has been put in these last years is bad administration of public finances, always degenerating in bad government and popular resentment.

A French ruler once said: "Give me good finances and I will give you good government." There can be no good government unless there is enough money in the public treasury to supply the expenses necessary for the maintenance of every essential governmental service and, on the other hand, money levied for these governmental services should not be so abundant as to make taxation a too heavy burden on the people.

Sources of Revenue

There are three main sources of revenue for a government: loans, profits from commercial or semi-commercial public services, and taxation.

In sound public financing, it has been admitted that income from loans should be restricted to capital expenditures, but in these last years and even decades there are not many governments that have not broken this rule. In many cases the burden of yearly expenditures has been shifted from the present generation to the future ones, if not on the shoulders of the lenders or their heirs. There are certainly public emergencies, such as war, national calamities, and heavy economic crises, which authorize the governments to use this form of getting revenue to maintain civil services but it should be resorted to very cautiously.

When the credit of the borrowing administration is still good it is, indeed, the easiest way of filling the treasury. It is also and, unfortunately, the worst incentive to loose spending. To use this system for raising money for current and unnecessary expenses is playing with fire. Taxes can be levied every year and even new ones can be imposed by governments that cannot be stopped from levying them until the electors so decide at the polls and elections can be deferred to the last days of the legal duration of a parlia-

ment. But when a government has to live out of the receipts cashed from loans, its source of revenue can be closed at a time when it can be deprived of even the money necessary to pay public servants. You can force the people to pay legally existing taxes but the lenders cannot be compelled to lend their money to the State unless by a law and by a sovereign government. New taxes cannot be imposed unless by a vote of the representatives of the people duly assembled in session. So if the treasury happens to be empty during the recess of parliament, when the current taxes have been collected and spent and at a time when nobody can be found to lend at long or short term, the government is faced with the necessity of resigning or of calling a session to levy new taxes.

Income from Services—The second main source of revenue for a public administration is the one supplied by its commercial or semi-commercial services. In the Province of Quebec, we have not many governmental enterprises run for profits.

We have actually two important ones: The sale of strong liquor and toll bridges. From the first one we may say that we derive one of our large items of revenue.

It was thought some twenty years ago that the government should control the sale of strong liquor for two main purposes: promote temperance by restricting the sale and reserve for public welfare the huge profits formerly made by private interests. A large part of the yearly profits have been ear-marked for the hospital fund and thus the needy, the sick and the poor are being taken care of mostly with the profits derived from the sale of alcoholic liquor, profits that went formerly to individuals. These profits derived from this public service are nearly sufficient to pay our huge public assistance bill.

The yearly cost of this chapter of expenses in our yearly budget is now near the ten millions mark and the profits derived from the Liquor Commission represent in average about two-thirds of the amount. Last year these profits have been close to $7,500,000.

There are strong opponents to the policy of governmental control of industry and commerce for profit. My opinion is that this policy should be restricted as much as possible and that it is wise only in cases where morality is

concerned, as in the strong liquor trade, and as regards public utilities when their administration necessitates the credit and the supervision of the government to insure to the people reasonable rates and an adequately efficient service.

Another source of our semi-commercial revenue is the system of toll bridges in our Province. Until two years ago, two of the most important revenue producing bridges were in the hands of private interests and a third was the property of a municipality. When the original charters were granted authorizing the collection of tolls on all these bridges, and for many years after, the yearly expenses were nearly always higher than the receipts. With the advent of good roads, built with public moneys, the revenue from tolls went sky-high and fortunes were being made by the individual proprietors, and the municipality got such a large revenue from its bridge that the municipal taxes were discontinued. Thus the three owners of the bridges were taking for themselves all the direct revenues produced by the thirty millions that had been spent by the government on the roads adjacent to these bridges.

The right to levy taxes or tolls from the people must proceed from strict law and cannot be inferred from any text of a statute more or less relevant to the matter. None of the owners of the charters has ever had the right to collect tolls from users of automobiles and trucks as these vehicles were not even known when their ancestors were authorized to collect farthings or pennies on pedestrians, or drivers of asses, oxen or other prehistoric pullers of wagons on skids or wooden wheels. Because of the public expenditure on these roads, was it not the duty of the government to stop these abuses and to have the money collected returned to the ordinary taxpayers to lighten the new burden of taxation we have had, by necessity, to impose on the people to pay the debts of our predecessors?

Some people are under the impression that the Province of Quebec is the only province where tolls on bridges exist. This is far from being the case. In Ontario on the upper St. Lawrence waters, starting from the St. Clair River, every place where there is an international bridge there are tolls to pay and, in many cases, tolls much higher than the ones on the same river here. You cannot enter the Province

of Ontario from the United States, crossing the St. Lawrence and its main feeders, without paying tolls. The difference is that in our Province the St. Lawrence splits our territory into two sections and that our big city is entirely surrounded by its waters, while in Ontario the St. Lawrence waters are marginal and act with the Great Lakes as a boundary, but its bridges are not any more free than they are here. In the United States there are some three hundred toll bridges and tolls are now collected even on nearly thirty improved highways.

The principle of charging a special tax to the person who benefits directly by a costly improvement is a sound one provided the community bears its proportional share of the cost according to the benefits it receives at large from the improvement.

Our income from our two main commercial undertakings, the Liquor Commission and the provincial toll bridges, will very soon give us a revenue of ten millions, nearly one eighth of our yearly total income.

It is not a very large amount but it will be easily admitted that if we had to increase our ordinary taxes to replace it, it would mean a severe hardship for those who would have to bear the additional charge.

Income from Taxes—The British North America Act has put a restriction on the taxing power of the provinces. Indirect taxation has been reserved to the federal government, this government having also the power to impose direct taxes. We cannot as a Province levy other than direct taxes. To my mind, this policy is a sound one as it is not a bad thing to force the government of a section of the country to get its revenue directly from the individual citizen. The direct tax is never unknown and as it has to be collected from the voter, public expenditure is checked thereby and has a chance to be restricted to the minimum.

The tendency of legislative bodies elected in our democratic system by the masses is to shift the burden of these direct taxes onto the shoulders of the rich. True, the rich are bound in justice to pay a large share of the public expenses because they generally benefit much more from the existence of the state than the poor and they are much less inconvenienced by the levy, but the doctrine "soak the rich" is not democratic but ochlocratic. No tax should be

so high as to destroy the capacity for paying of the taxed person or corporation.

In the first days of the French Revolution some members of the Parliament were in favour of putting a small per capita tax on every French citizen having attained the legal age for voting. Robespierre, one of the great personalities of the troubled times in which French democracy was born, at first was a strong opponent of this policy but he soon changed his mind and he gave as his reason the fact that after having studied the question more fully he was convinced that the payment of the small tax would add to the dignity of the voter by making him feel that he had a true title to the vote since he was sharing in the expenses of keeping the government of the nation.

Robespierre was right; everybody claiming the right to vote should contribute to the maintenance of the public services. If the voter feels the sting of a tax, however small it is, and he is exposed to pay additional charges if the government is badly run, then he takes a more serious interest in the administration of public affairs.

The direct taxes on the popular masses have to be very low to be just and bearable. They have to be low because the poor man is indirectly taxed in many ways. In his rent he pays his share of the real estate municipal tax, and in his food and his clothing he pays the federal excise, customs and sales tax. He may not see these taxes and he may not even feel them; that is the reason why he is not as much impressed by them as he is by a tax he has to pay directly but, they are there, and the legislature in imposing the direct tax has to take the indirect ones into account so as not to be unjust towards the man of restricted means.

Diversification of the direct tax is also a policy that does not appeal generally to the elected bodies but it is a sane policy which in the long run tends to stabilize democratic governments. Formerly our municipal councils had to rely only on the real estate tax to pay their expenses and those of our school commissions. The burden of this tax has been so heavy on real estate in our large cities of the province that many proprietors have been ruined by them and in Montreal their number has fallen in these last years to nearly ten per cent of the dwellers. A good government will see that the burden of new expenses be not always put on

the same shoulders by a simple increase of existing taxes if they are up to a reasonable level. Exorbitant taxes, even when they are imposed on a small class of people, are the worst source of dissatisfaction tending to ruin democracy; those who are oppressed by these exactions are all convinced that it is to please the mass, the multitude of voters, that the elected representatives ill-treat them and, in nearly every case, it is true. Those ill-treated citizens may be few in number but they generally carry a great influence and not being able to elect representatives of their choice because of their small number they sap democratic institutions, government by the majority, at their base.

(After dealing with the subject of public expenditures and with the budget system of the government, the strict observance of which is one of the best safeguards for the good administration of public moneys, Mr. Bouchard concluded his address with the following observations:)

The Duty of the Hour

Mr. President, I have spoken of very trivial details of our public finances and I have done it on purpose. I am speaking to expert accountants and as I was convinced that they know much better than myself our laws on public finances and the general principles of financial administration, I wanted to speak only of those small practical points of administration that may escape the attention of those who are not in daily contact with the administrative machinery of our government. These details may look insignificant, but a little correction here and a little correction there easily mean in the long run the saving of millions of dollars and, perhaps, the very life of our democratic institutions.

The masses are impressed favourably or unfavourably more by small things than by important problems. They hear the discussion of these paramount problems and, as they are much over their heads, and, as it is hard to find which are the eminent lawyers who have the truth with them, they are not moved by one side or the other. But if they realize in the every-day administration of the government that the money they have paid in taxes is used for some other purpose than the one it was raised for or is squandered in some way or another, they lose confidence in the men they have chosen to administer their affairs and if, after having changed them once or twice, the same abuses still prevail, then they stop believing in the system itself, and our democratic institutions are seriously endangered.

Hence, the necessity of bettering our methods of administration of public finances wherein they are grossly defective and of correcting certain practices that are pernicious and apparent to the masses. We must not forget that to save democracy we must have good public finances, and to have good public finances we must have good administration and must be ready to make the necessary sacrifices to have this sound administration.

Mr. President, in a few days, the Legislative Assembly of this Province will have to vote the budget for the next fiscal year. What this budget will be, I do not know exactly, but I hope that it will show that our legislators have been ready to take the necessary measures to give us sound finances at a moment when they never were more needed in this Province. We are at war and we have the firm intent of winning this war at any cost. The Federal Government has a budget of total expenses amounting to some $1,750,000,000 in which $1,300,000,000 will be spent for war with an additional probable expense of $300,000,000. It is estimated that the total disbursements of our federal, provincial and municipal administrations will amount to three billions, representing three-fourths of the total national income.

This situation makes it imperative for our Province to balance its budget without having recourse to loans. It means also that we will have to get a sufficient revenue to pay the probable eighty million dollars of total expenses we will have to make in the next fiscal year.

Unnecessary expenses will have to be cut out and the new taxes we have been obliged to impose in 1940 will of necessity have to be maintained. They will help us to complete the stretches of roads we have started to build last year and we will use part of their revenue to give work here and there to the needy unemployed. If those taxes had not been imposed last year, we would have had to enact them this year or to stop the construction of all new roads in the Province.

When we see the sacrifices that are made by a whole nation on the other side of the ocean to save the civilization we love, when we see our young men flocking to the colours to do their part in the fiercest struggle our free nations have ever engaged in with barbarians, our share in the organization of the gigantic war machine that will finally crush the

enemy, looks rather small; it is by the union of all the energies of our people and the people of the countries which still have faith in democracy that we will succeed in pushing back the modern Huns into their haunts and to have them experience the terrors of the blitzkriegs they have waged on defenceless women and children. That day may appear distant, but in the sky, south of us, we see many brilliant stars presaging that the sun of victory is surely bound to appear for every liberty-loving nation. May that day soon come to make, once more, democracy and progress safe for humanity.

ECONOMIC NOTES

The Extent of Canada's Financial War Effort

ONE of the most obvious and disturbing features of the debate on the Lease-Lend Bill in Washington was the repeated statement by isolationist Senators that Canada was being paid "cash on the barrel-head" for all supplies sent to Great Britain and that therefore she was not doing as much to help the common cause as the United States, a neutral, was being asked to do under the provisions of the Bill. Since "lease-lend" became law, the President has signed a bill providing $7,000,000,000 to carry out its provisions. In a country where an item of government finance in millions looks like a misprint, even this sum is staggering. What is important in the light of the above criticism of Canada, however, is the proportion of national income that each nation at war with the Axis powers, and each ally, declared or undeclared, is contributing to the defence of democracy.

Discussion of prospective governmental expenditures in relation to future national income is always hazardous, and especially so when a country is at war. A budget then is "open-ended" in the sense that war outlays are almost always more than expected and, indeed, will be as great as can be managed as a result of working the physical capacities of the country to their limit. What is more, national income will increase tremendously as productive capacities are extended and full employment is reached.

In Canada the estimates are in, but we must await the budget before we can tell how these tremendous sums are

to be raised. The Minister of Finance has already indicated that at least $1,450,000,000 will be spent on Canada's direct effort and this sum can properly be regarded as a minimum. On top of this, the government must raise through taxation or borrowing probably another $700,000,000 to pay for ordinary peace-time expenses and to meet losses on the wheat programme. Further even than this, the amount of Canadian aid to Great Britain represented by our favourable balance of trade with her is expected to amount to $1,150,000,000. While it is indeed true that Great Britain has shipped $260,000,000 in gold to Canada since the beginning of war (on the basis of figures appearing in Prime Minister King's speech of 25th March), this will not decrease the amounts which must be raised here by taxation and borrowing to carry out our war effort. Gold is useful to Canada only as a means of paying the United States for our excess balance of imports from her. We are not sure, moreover, that any gold will be forthcoming from Great Britain for this purpose in the future; American isolationist sentiment may require that it all be paid direct to the United States, rather than by the present indirect route *via* Canadian accounts.

Since Canada's national income for the coming fiscal year is estimated at $5,950,000,000, the figures just outlined suggest that our direct war effort plus aid to Great Britain will absorb 44% of the total. When other federal and all provincial and municipal expenditures are added to the grand total, governmental outlays in Canada for the coming year will amount easily to 60% of the national income.

In the United States the sum of slightly more than $40,000,000,000, has already been voted for rearmament and to carry out aid to Great Britain under the lease-lend bill, but it is not expected that this can be spent for nearly three years. Recalling how long it took Canada and Great Britain to get their war economies into high gear, one may be justified in supposing that no more than $12,000,000,000 of this amount, if that, can be spent in the current year. Assuming then that this will be the case, and that ordinary peace-time government expenditures will continue at $8,000,000,000, it is obvious that the total of $20,000,000,000 will certainly be no more than 25% of a national income estimated to be well over $80,000,000,000 in 1941. Rearmament outlay alone would then be only 14% of national in-

come, compared with the 44% figure which applies to Canada's direct war expenditures and aid to Great Britain. To put it another way, to match the Canadian percentage the United States would have to spend $35,000,000,000 in rearmament and aid to Great Britain under the Lease-Lend Bill provisions in 1941 alone.

Just to clinch the argument, the following table is given to show Canada's relative position with regard to financial outlay in this war. The figures represent estimates of total governmental expenditures* (for example, in Canada this includes all federal, provincial and municipal outlays) as percentages of national income for 1941. Those for the Empire were prepared by the Royal Institute of International Affairs in January 1941, and that for Germany by the United States Department of Commerce in February 1941.

	Taxation	*New Borrowing*	*Total*
Australia	23	12	35
New Zealand	24	8	32
Canada	24	20	44
South Africa	20	13	33
United Kingdom	25	36	61
Germany	34	38	72

It has been shown that the latest estimates, as outlined in Prime Minister King's speech of 25th March, have revised the Canadian figure in this table sharply upward to about 60%. No doubt somewhat the same phenomenon will be observed in the case of the other Dominions and even in Great Britain; probably, however, the German effort is nearly at its ceiling. In any event, even the earlier estimate and comparison for Canada included in the table underline the fact that this country is not only pulling its weight financially in this war, but is rapidly approaching the limits of possibility in this direction.

L. B. JACK.

Montreal
16th April 1941.

*These include outlays for both war and ordinary purposes.

JUDGMENT RESPECTING THE INCOME WAR TAX ACT

The Muriel S. Richardson Case

Mrs. Richardson, the widow of the late James A. Richardson, appealed from an assessment of her personal income made for the year 1936 to the Exchequer Court. By judgment rendered on 15th April 1941, the President of the Court, Mr. Justice Maclean, dismissed the appeal. Mrs. Richardson had an interest in three personal corporations and accordingly, when they had profits, she was deemed to have received her proportionate part thereof even though not distributed. As one of the companies had a loss in 1936, Mrs. Richardson sought to have the benefit of the loss as an offset against the profits of the other two.

Personal Corporations—All the issued shares of James Richardson & Sons, Limited, a grain company, were held by Mr. James A. Richardson and his relatives. Mr. Richardson's shares were transferred to a personal corporation to be termed shortly "Interprovincial." Mr. Richardson sought to have all the other shares of the grain company transferred by his relatives to Interprovincial but as the latter company had other investments, his relatives demurred. Consequently, another company, Intercolonial, was incorporated to acquire all the issued shares of James Richardson & Sons, Limited. Interprovincial and Mr. Richardson's relatives duly transferred to Intercolonial all their shares in the grain company and received in return securities of Intercolonial. Interprovincial received shares of Intercolonial but the relatives received debentures created by Intercolonial with the result that Interprovincial became the owner of all the issued shares (except qualifying shares) of Intercolonial. The third personal corporation, North American, was a Newfoundland company incorporated by Mr. Richardson to acquire United States securities owned by Interprovincial. It issued its own shares in payment with the result that Interprovincial became the owner of all the issued shares (except qualifying shares) of North American.

Income—Each of the three companies, Interprovincial, Intercolonial and North American, filed separate returns, and the return of Interprovincial included a profit and loss statement which was consolidated with that of the two subsidiaries. Nevertheless no consolidated return, as author-

ized under section 35(3) of the *Income War Tax Act,* was filed. Interprovincial and North American showed profits aggregating over $120,000 but there was a loss for Intercolonial of nearly $45,000. In the result the consolidation of the three profit and loss statements resulted in a net profit of approximately $75,000 and half of this was returned by Mrs. Richardson as income since her interest in Interprovincial was a 50% interest.

Judgment—In his approach to the problem Mr. Justice Maclean pointed out that the corporations involved were separate taxable persons and their profits, separate taxable profits. Personal corporations were no exception to this rule even though the tax was assessable against the shareholders and not upon the corporations themselves. His Lordship quoted from the judgment of Sir Wilfred Greene, the Master of the Rolls in a recent English Case of *Odhams Press Ltd. vs. Cook* (1938) 4 All E.R. 551, pointing out that inconveniences resulted from operating through subsidiaries, particularly from the taxation viewpoint as the subsidiary was a taxable entity separate from the parent. Mr. Justice Maclean discussed section 35(3) of the Act and concluded that the section did not permit the consolidation of returns by personal corporations. In any event the companies could not consolidate their returns unless engaged in the same general class of business and he did not consider that Intercolonial and Interprovincial were engaged in the same general class of business having in mind that the former was under agreement not to engage in any business within its corporate powers other than the holding of shares of James Richardson & Sons, Limited, which it had to hold until the debentures were paid off. Finally the learned judge pointed out that Interprovincial had never elected to put itself within the terms of section 35(3) and did not file a consolidated return thereunder. Mrs. Richardson was, however, properly assessed for 50% of the income of North American as it was a personal corporation in which she had, though indirectly, a 50% interest.

NEW LEGISLATION RESPECTING TAXATION—DOMINION AND PROVINCIAL

Editor's Note: The information published under this heading indicates only in general terms the nature of recent legislation of the Provincial Governments respecting taxation. *For the Text of the legislation, readers should refer to the respective Acts.* A copy of a Dominion Statute can be obtained from the King's Printer, Ottawa, and of a Provincial Statute from the King's Printer of the Province concerned.

To provide information to chartered accountants who are called upon by their clients to prepare taxation returns in other provinces, The Dominion Association of Chartered Accountants some time ago sent to the reference library of each provincial Institute a complete set of income tax legislation passed by the various provincial legislatures, and is keeping this information up to date by sending copies of amendments to such legislation as soon as these amendments are available for distribution.

I. Dominion

Amendments to the *Income War Tax Act* or to *The Excess Profits Tax Act, 1940* have not yet been made at the 1941 session of Parliament. On 8th April last, however, Hon. J. L. Ilsley, Minister of Finance, in an address in the House of Commons, outlined the amendments which he was recommending to the Government in connection with the Excess Profits Tax and which would have a retroactive effect for the past year. Mr. Ilsley's address was printed by the Dominion Association and distributed to members in Canada. Extra copies were printed and were made available at fifteen cents a copy to anybody who wanted them. Copies (seven pages in all) are still available at this price. Remittance with order should be made to the Secretary-Treasurer, The Dominion Association of Chartered Accountants, 10 Adelaide Street East, Toronto.

II. New Brunswick

The Corporations Tax Act—The principal amendment in 1941 permits the Provincial Secretary-Treasurer to require (by notice in writing) any company or person doing business in the province to file a return or a correct or sufficient return or statement and in case of default within thirty days of such request the Provincial Secretary-Treasurer may fix the amount of the income, profits, capital or other basis of taxation and assess accordingly.

III. Nova Scotia

The Corporations Tax Act—The principal amendments in 1941 are as follows:

(1) The charging section now reads as follows:

> "Every company and person having a head office in Nova Scotia or holding assets in Nova Scotia or transacting business in Nova Scotia whether under the name of such company or person or through an agent or otherwise and every insurance company which now transacts or heretofore transacted business in Nova Scotia and collects premiums from policyholders resident in Nova Scotia shall annually pay to the Provincial Secretary for the uses of the province the several taxes imposed by this act at the time and in the manner hereinafter provided."

(2) Provision is made for apportioning the paid up capital, the part deemed to be employed in Nova Scotia being the same ratio that the gross sales or gross revenue in Nova Scotia bears to the total gross sales or total gross revenue.

(3) In the case of real estate companies, or companies whose operations tend to deplete the natural resources of Canada (notwithstanding that such depletion may be replaced from time to time by the operations of the company) or companies whose main business in Nova Scotia is the holding of lands, leases and the like or the manufacture of goods, wares and merchandise, the paid up capital may be apportioned in the ratio that the assets in Nova Scotia bears to the total assets.

(4) A deduction from paid up capital may be allowed in respect of investments in shares, bonds and obligations of other companies or in government, municipal or school corporations, the amount allowed being the same proportion that such investments bear to the total assets before depreciation.

(5) Provision is made for apportioning net income, the part deemed to be earned in Nova Scotia being the same ratio that the gross sales or gross revenue in Nova Scotia bears to the total gross sales or total gross revenue. In the case of the following companies the apportionment may be on the basis of assets.

(a) Real estate companies.

(b) Companies whose operations tend to deplete the natural resources of Canada notwithstanding that such depletion may be replaced from time to time by the operations of the company.

(c) Companies whose main business in Nova Scotia is holding of land, leases and the like.

(d) Companies whose main business in Nova Scotia is the manufacture of goods, wares and merchandise except companies whose manufacturing business is solely in Nova Scotia and whose sales in Nova Scotia are less than 50% of its total sales.

(6) The amendments are given effect to as if they had been enacted on 30th December 1940.

The Domestic, Dominion and Foreign Corporations Act — Every corporation holding a certificate of registration shall, in the month of January in each year, file with the registrar a statement showing the name of its recognized agent in Nova Scotia, the names of its directors and of its officers, the amount of its nominal capital stock, the amount of the stock subscribed or issued, and the amount paid up thereon and such other information as the Registrar requires.

IV. Ontario

The Corporations Tax Act, 1939—The principal amendments in 1941 are as follows:

(1) The term "insurance company" does not now extend to fraternal societies and mutual benefit societies as defined in *The Insurance Act* nor to pension fund and employees mutual benefit societies incorporated under or subject to the provisions of *The Companies Act*. Such funds or societies are now exempt from tax under *The Corporations Tax Act, 1939*.

(2) Mutual insurance companies insuring agricultural and other non-hazardous risks on the premium note plan, whose sole business is carried on in Ontario, are now exempt from tax under *The Corporations Tax Act, 1939*.

(3) The special tax on telephone companies has now been removed. Such companies are now subject to tax as follows:

	Paid up Capital less than $100,000	Paid up Capital $100,000 or more
Capital tax	Exempt	1/20 of 1%
Place of business tax	$5 to $50 a year according to paid up capital	$50 for each place
Net income tax	5%	5%

(4) Incorporated companies organized and operated on a co-operative basis and whose business is of the character described in Section 12 Sub-Section 5 (as amended) are exempt from tax under *The Corporations Tax Act, 1939.*

(5) A company must now have, besides a nominal head office in Ontario, another office in Ontario before the nominal head office is exempt from taxation under Section 12.

(6) Dividends received from a wholly-owned subsidiary which have been paid out of dividends from a wholly-owned sub-subsidiary are now exempt to the extent that such sub-subsidiary dividends have been paid from net income which has been the subject of tax under the laws of any province or provinces of Canada. Only partial exemption is granted where the net income from which the sub-subsidiary dividends were paid was subject to a lower rate of tax than the rate imposed under the Act.

(7) An incorporated company may deduct from the tax calculated upon net income the amount of the tax calculated upon net income which was paid or payable to any province, state or country outside of Ontario for the fiscal year covered by the return provided that the deduction shall not exceed the amount of the tax which would otherwise be payable in respect of net income derived from sources within each such other province, state or country. Taxes paid to the Dominion of Canada are not allowed as a deduction. Formerly the deduction was limited to the amount of the tax paid to other jurisdictions during the year covered by the return which, in most cases, was a tax calculated on the net income of the previous year.

(8) The higher rates of taxation provided for in the 1940 amendments have been extended to the year 1941 and the parts of fiscal years ending in 1941.

(9) The amendments apply to fiscal years ending in 1940 and subsequent fiscal years.

The Income Tax Act (Ontario)—The principal amendments in 1941 are as follows:

(1) Incomes not liable to taxation now include the service pay and allowances of:

(a) Warrant officers, non-commissioned officers and men of the Canadian Naval, Military and Air Forces, while in the Canadian Active Service Forces, and

(b) Commissioned officers of the said Forces while on active service beyond Canada, or on active service in Canada, whose duties are of such a character as are required normally to be performed afloat or in aircraft.

(2) An exemption is granted of four hundred dollars for each child evacuated during the present war from the United Kingdom of Great Britain, Ireland or the British dominions beyond the seas under

twenty-one years of age and dependent upon the taxpayer for support and maintained by the taxpayer in Ontario provided that the tax reduction obtained as a result of such deduction shall not in any case exceed the amount of tax reduction which would be received by a married person without dependents in respect of an income of $5,000.00.

(3) The amount allowed as exemptions by way of charitable and patriotic donations under the *Income War Tax Act* (Canada) for the corresponding period is also allowed under the Ontario Act.

(4) Provision is made to prevent duplication of taxation in the case of persons who have moved from or to Ontario during the year and of non-resident persons employed in Ontario. Reference should be made to Section 8a for particulars thereof.

(5) Provision is made for payment, without interest, of income taxes in instalments; the terms are the same as those provided for in the *Income War Tax Act* (Canada).

(6) The amendments are applicable to the year 1940 and fiscal years ending therein.

The Assessment Amendment Act, 1941—There were no amendments to *The Assessment Act* in 1941 affecting the assessment of income.

THE INCOME WAR TAX ACT

Ruling

The following minute of the Treasury Board was approved by the Deputy of His Excellency the Governor General in Council on 31st March 1941.

Exemptions and Allowances

The Board recommend that, under the authority of the *War Measures Act*, every person resident in Canada who is liable to income tax under the *Income War Tax Act*, on income of 1940 and thereafter, shall be granted the exemptions and allowances provided in paragraphs (c), (e) and (i) of Section 5 of the Act, only if such dependents are maintained in Great Britain or any of its self-governing colonies or dependencies or in the Dominions of the British Commonwealth of Nations, or in a country contiguous to Canada.

THE HOME OF THE ENGLISH INSTITUTE

The Council of the English Institute did better than they knew when, to mark the coronation year of King George the Sixth, they produced a handsomely illustrated brochure on the hall of the Institute in Moorgate Place, London. When every hour is fraught with peril for the stones of London and when a light touch on a bomb lever by some Nazi vandal may reduce a handsome edifice to a heap of unrecognizable debris it is some comfort to have this enduring memoir in the words of Sir John Squire and in the photographs by Bedford Lemere and Co. It is comforting, also, in view of the destruction which has already occurred

in the City, to be reminded by Sir John (in the preface to his favourable criticism of the Institute building) that the period of most rapid commercial and industrial expansion was the period when architecture was at its lowest. He gives a few examples of good architecture (pre-fire and post-fire) and comes to the conclusion that beyond these there is virtually "nothing but a dreadful wilderness of nineteenth century ugliness." "Stand in St. Paul's Churchyard" he says, "and look at the contrast between Wren's Cathedral and the squalid surroundings . . . . The City is crowded with streets and lanes whose historic names breathe romance to children all over England who have never seen London. The names are mediaeval; but the structures!" Those who are grieving over the great incendiary raids of 31st December and 16th April last on the City proper will gain from a re-reading of this brochure a realization that piles of rubble may represent an opportunity for the creation of something infinitely more noble than what has been destroyed.

R. G. H. SMAILS
(Member of The Institute of Chartered Accountants in England and Wales)

TABLE OF EXCHANGE RATES

(Kindly supplied by The Canadian Bank of Commerce, Toronto)

	31st March 1941	*15th April 1941*
U.S. Dollars	10-11% P.	10-11% P.
Sterling	443-447	443-447
Australian Pounds	358½	358½
New Zealand Pounds	360	360
South African Pounds	443	443
British West Indian—Dollars	9270	9270
India—Rupees	3376	3376
Hongkong—Dollars	2724	2729
Straits Settlements—Dollars	5251	5251
Finland—Finmarks	199	199
Sweden—Kronor	2637	2637
Switzerland—Francs	2568	2567

There are no quotations for Italy (lire) or for the following countries under the control of Germany: Belgium (belgas), Denmark (kroner), France (francs), Holland (florins), and Norway (kroner).

Note: The above quotations are expressed as follows: Pound currencies—Canadian cents per unit; Continental currencies and sundry British Empire—Canadian cents per 100 units.

THE DOMINION ASSOCIATION OF CHARTERED ACCOUNTANTS

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Chairman, Committee on Accounting Research—D. McK. McClelland, F.C.A.

GENERAL NOTES

Our Contributors This Month

ROBERT WILLIAM GARDNER was born and educated in Scotland, came to Canada in 1911 and spent ten years in the law office of the late C. F. P. Conybeare, K.C., at Lethbridge. He is a member of the Institute of Chartered Accountants of Alberta and is practising his profession as a chartered accountant in Lethbridge. Mr. Gardner has contributed to our columns on previous occasions.

LAWRENCE B. JACK who is contributing to our column "Economic Notes" is a graduate of the University of British Columbia (B.A. 1932), a graduate of the University of California (M.A. in Economics 1933), and of Oxford University on a Rhodes Scholarship (B.A. 1935 in Law). The following year he continued his research in Economics at Oxford and is now proceeding to the degree of Ph.D. from McGill University. He holds the position of Investment Economist with the Sun Life Assurance Company of Canada, Montreal.

DONALD LESLIE JAMES, who explains this month the War Savings plan of the employees of the Hollinger Mines, is a graduate in Commerce of Queen's University (1934) and became a member of the Ontario Institute in 1939. He is associated with Messrs. Edwards, Morgan & Co., chartered accountants.

DONALD RAND PATTON has been a member of the Society of Chartered Accountants of the Province of Quebec since 1926 and is practising his profession in Montreal with the firm of Haskell, Elderkin & Co. He is President of the Canadian Society of Cost Accountants and Industrial Engineers, and contributions by him on the subject of cost accounting have already appeared in recent issues.

1941 Annual Meeting of Association

The Executive Committee of The Dominion Association of Chartered Accountants and the Council of the Institute of Chartered Accountants of British Columbia have been making plans for the holding of the thirty-ninth annual meeting of the Association in Vancouver during the second week of August.

Provided conditions permit and wartime demands upon

the members of our Executive Committee and the members of Council do not seriously interfere with the proposed plans, the following will be the programme of business of the meeting:

August 11th, Afternoon—Meeting of Committee on Education and Examinations
August 12th—Meeting of council
August 13th, Morning—Meeting of council, continued
Afternoon—Recreation
August 14th, Morning—General session of members
Afternoon—Roundtable discussion
Evening—Banquet for men, and address.

Customs and Excise Revenue

According to the April issue of *The National Revenue Review,* published by the Department of National Revenue, Ottawa, the estimated customs and excise revenue received for the twelve months ending 31st March 1941 was over $166,000,000 in excess of that for the corresponding period of a year ago. Following are the particulars:

	1939-40	*1940-41*
Customs duties, net	$ 99,266,912	$127,430,959
Excise taxes, net	158,734,726	271,289,029
Excise duties, net	63,759,448	89,238,231
Sundry collections, net ...	598,198	599,113
Totals	322,359,284	$488,557,332
Net increase for 1940-41	166,198,048	
	$488,557,332	$488,557,332

Income Tax Revenue

According to the *Review,* the income tax collections for the year ending 31st March 1941 were $272,138,290, or $137,689,724 in excess of those of the corresponding period of a year ago.

Magazine of Scottish Societies

Some of the members of our Dominion Association who are members of one of the Scottish Chartered Accountant Societies, are already receiving *The Accountants' Magazine* published by these Societies.

We have been asked by A. G. Murray, C.A., 23 Rutland Square, Edinburgh, who is Editor and Secretary of that Magazine, to invite the attention of our members to this publication. It is the professional journal of the Societies of Edinburgh, Glasgow and Aberdeen, was founded in 1897 and is published monthly, except September and October, and its annual subscription is fourteen shillings (post free).

Our Editorial Committee welcomes this opportunity of making this announcement.

LEGAL DECISIONS

[Editor's Note: The following are brief summaries of recent decisions of the Canadian Courts as taken, by the kind permission of the Canada Law Book Company, from the *Dominion Law Reports*. In each case reference is made to the volume of the *Reports* where the full judgment may be found. It should be kept in mind that the decisions given may not in every case be final.]

Companies—Shareholder's class action—Refusal of general meeting to authorize action in company's name

(Levi v. *MacDougall et al.)*

British Columbia Court of Appeal

It is an essential element (not a condition precedent) of an action by shareholders suing on behalf of themselves and all other shareholders of a company that their statement of claim allege that a general meeting of shareholders refused plaintiffs' request to bring the action in the company's name or that such a request would have been futile by reason of the defendants being majority shareholders; and where it is merely alleged that the company rejected a request for such authority, the Judge may dismiss the action on a point of law raised *in limine* under M. Rr. 282 and 283. While such a point should be determined solely on the allegations in the pleadings, if counsel admits facts *aliunde*, he will not later be heard to controvert them. Thus, if plaintiffs' counsel admits that defendants are not majority shareholders, and, further, elects to stand upon his pleadings without amendment, leave to amend will be refused on appeal.—[1941] 2 D.L.R. 171.

Company director—False statement of financial position—Loan shown as cash asset

(Rex v. *McLeod)*

Supreme Court of Canada

A company director is guilty under *Criminal Code,* s. 414 of making a statement of the company's financial position knowingly false in a material particular, to wit, in showing a certain sum as a cash asset, with intent to deceive the shareholders, if he knows that the greater part of such sum, although actually standing to the company's credit in the Bank, is in fact a loan subject to repayment. In such case intent to deceive will be presumed. The fact that supplementary particulars furnished by the Crown disclose an offence under *Criminal Code,* s. 413 (making false entries) does not vitiate the charge for duplicity or afford ground for a new trial, if no one is misled thereby. [1941] 1 D.L.R. 773.

(*Note:* The judgment of the British Columbia Court of Appeal in this case was reported in [1941] 1 D.L.R. 578.)

Succession duty—Not a debt of estate

(re Wagstaff)

Ontario Supreme Court

Succession duty does not constitute a debt owing by the estate to the Crown and thus, in case of a deficiency of assets, does not rank *pari passu* with the debts of the estate under s. 48 of the *Trustee Act,* R.S.O. 1937, c. 165.

Succession duty is imposed only in respect of property "passing on death," *i.e.* passing through decedent's personal representatives into the hands of those beneficially entitled, and thus the Provincial Treasurer's lien for succession duty only attaches to such property as remains after payment of decedent's debts.—[1941] 2 D.L.R. 108.

Taxes—Business Profits War Tax Act 1916—Reviewing assessments made

(Dominion Textile Co. Limited v. *Minister of National Revenue)*

Exchequer Court of Canada

Assuming the provisions of the *Business Profits War Tax Act, 1916* (Can.), c. 11, and amendments, to have been revived by c. 19 of 1937 (Can.), s. 13 (3) of the revived Act, as amended 1923 (Can.), c. 34, authorizes the Minister

to review an assessment previously made thereunder only upon establishing that the taxpayer did not wholly pay the taxes for which he was assessed or liable under the Act or that he made inaccurate or false returns for the taxable periods thereunder.—[1941] 1 D.L.R. 377.

(A summary of this judgment appeared at pages 416-419 of the June 1940 issue of THE CANADIAN CHARTERED ACCOUNTANT.)

Taxes—Expenses of refunding bond issue—Assessable income thereby increased

(Montreal Light, Heat & Power Consolidated v. *Minister of National Revenue)*

Exchequer Court of Canada

Expenses incurred by a company in retiring an outstanding bond issue and replacing it in part by a new issue at a lower rate of interest constitute a payment or outlay on account of capital and are not "expenses wholly, exclusively and necessarily laid out or expended for the purpose of earning the income," for notwithstanding that the effect of the operation is to increase the company's assessable income, its object is not to increase the net profits or gains of the company but to reduce a fixed capital charge. Hence such expenses are not deductible from income.—[1941] 2 D.L.R. 97.

(Note: A summary of this judgment was published in the February 1941 issue of THE CANADIAN CHARTERED ACCOUNTANT).

Minister of National Revenue v. *Dominion Natural Gas Company*

Editor's Note: A summary of the judgment of the Supreme Court of Canada (18th November 1940) in this case was published in the January 1941 issue of THE CANADIAN CHARTERED ACCOUNTANT. The full judgment appears at pages 19 to 31 of *Canada Law Reports*, Part I—1941 published in April by the King's Printer, Ottawa.

PERSONALS

Maurice Boulanger and Guy Fortier, members of The Society of Chartered Accountants of the Province of Quebec, announce that they have entered into partnership under the name of Boulanger & Fortier, chartered accountants, for the practice of their profession at 71 Rue St. Pierre, Quebec City.

Messrs. Roll, Katz and Company, Montreal, chartered accountants, announce that David S. Katz, C.A., has been admitted to partnership.

The former partners of LaRue & Trudel, and Samson,

Knight & Co., wish to announce that on and after the first day of January 1941 they will practise their profession under the firm name of Chartré, Samson & Co., chartered accountants, with offices at Montreal, Quebec and Rouyn.

The senior partners of the new firm will be Messrs. Maurice Chartré, Jacques LaRue, Jean-Paul Gauthier, Léon Côté, Maurice Samson, A. Emile Beauvais, E. H. Knight and Gérard Marceau.

OBITUARY

The Late Jesse A. Baldwin

The Society of Chartered Accountants of the Province of Quebec reports with deep regret the death on 18th April of one of its younger members under tragic circumstances. F/O Jesse A. Baldwin was rescued by a brother officer from the fire which razed the officers quarters at the R.C.A.F. training centre some miles from Hamilton, Ontario, but died of second degree burns two days later.

He was an outstanding athlete, having played basketball and football while at the Westmount High School, but it was in tennis, squash and skiing that he excelled in later years. He was a former Canadian doubles champion at squash racquets and a member of many clubs. A few weeks ago he was No. 1 player of the Canadian squash team playing in Toronto against the United States for the Lapham Trophy. Later he competed in the Ontario indoor tennis championships at Hamilton, reaching the singles semi-finals against Bobby Murray of Montreal.

Though outstanding in sports, F/O Baldwin established his own practice after qualifying as a chartered accountant in June 1938, and later formed the partnership of Weldon and Baldwin. On the outbreak of war he joined the McGill C.O.T.C. and almost immediately upon finishing his training he entered the R.C.A.F. He was active and popular in the sports conducted by the Quebec Students' Society and winner of the tennis trophy in 1939. News of his death came as a great shock to the members and students. To his mother and brothers the members of both Societies extend their deep sympathy.

BOOK REVIEW

MASTEN & FRASER: COMPANY LAW OF CANADA

Fourth Edition by W. Kaspar Fraser, K.C.

(Published by *The Carswell Co. Ltd.*, Toronto, 1941, cloth, 1172 pages)

The practising accountant will find this work of great value as a reference book but it is not for an accountant to make other than a very superficial review of it as only an experienced corporation lawyer could review it adequately.

Every practising accountant should have a very general understanding of the Companies Act in order that he may advise his clients as to what requirements have to be complied with and, where necessary, point out to them that certain contemplated actions would be contrary to the provisions of the Act. In doing this he does not assume the role of the lawyer and his advice, therefore, on questions other than such provisions or prohibitions about which there can be no doubt, will take the form of calling his client's attention to the matter and advising him to consult his solicitor thereon.

The Dominion Companies Act is incorporated in the volume and in the same sequence of sections and consequently the accountant will usually find it to his advantage to refer to this work rather than to the Act itself because each section of the Act is followed by explanatory comments and summaries of decisions in cases where transactions coming within the provisions of a particular section have gone to the Courts for decision.

As an illustration of its value as a book of reference a practising accountant was recently asked by clients in the United States to examine a certain plan of reorganization of a Canadian subsidiary. This plan contemplated that the subsidiary would gradually retire its own common shares by purchase. The accountant knew that this was not permitted under our laws and was confident that the Companies Act had a provision to that effect and other accountants to whom he spoke had the same impression. He was surprised to find that there was no such prohibition in the Companies Act but "Company Law of Canada" gave the required information.

The accountant will find much of interest throughout this work. The following are mentioned only as indications: In the section dealing with dividends—the question as to whether or not dividends can be distributed when there is an existing deficit. In the section dealing with the powers and qualifications of directors—such questions as to what constitutes "holding shares in his own rights" and the necessity for personal attendance at meetings. In the section dealing with auditors—Court decisions as to the nature and extent of the auditors' duties and recent decisions in actions taken to recover damages from auditors.

The work has a very ample index which the accountant will find more useful than the index incorporated in the Act; and the insertion of cross references to other sections, to corresponding sections of the Ontario Companies Act and to relevant sections of the *Income War Tax Act* is an additional convenience.

Toronto
12th April 1941.

STUDENTS' DEPARTMENT

R. G. H. SMAILS, C.A., Editor

NOTES AND COMMENT

A study of the financial statements of a number of companies which have become involved in reorganization or liquidation proceedings, covering the five years up to the date of failure, reveals that in many cases the ratio of current assets to current liabilities instead of deteriorating over that period actually improved. This occasions some surprise until it is realized that the "failures" were attributable to faulty capitalization rather than inherent trading weakness. There was too much capital and it was of the wrong kind; the companies were capitalized on the basis of the inflated fixed asset valuations of the boom period 1927 to 1929 and a dangerously large proportion of the securities issued were bonds with fixed interest charges and preferred shares with preferential dividend rights. No great amount of perspicacity was needed to foretell that as soon as the boom ended and prices fell anything up to fifty per cent of the capital would be represented by nothing but thin air and heavy write-offs would be necessary. Meanwhile depreciation charges would be based on the inflated fixed asset values and would make it virtually impossible for the companies concerned to show a profit which would absorb the fixed interest charges—and much less a profit which would permit of the declaration of dividends on the preferred share capital. But it is to be noted that the excessive depreciation charge would tend to improve the liquid position more than a normal provision would do since, so far as this charge was covered by gross operating revenue, it represented the retension within the business of cash which in other circumstances would have been available for the payment of dividends. It is therefore reasonable that the impending "failure" should be accompanied by an apparently healthy trend in the current ratio and that it should not, typically, involve loss to unsecured trade creditors. Excessive capitalization and faulty capitalization by themselves involve a company in proceedings for reorganization of capital structure rather than in bankruptcy.

This note is being written just after Easter and we cannot help thinking that when accountants and business men have achieved the "natural business year end" they might usefully turn their attention to fixing the date of Easter which according to the traditional mode of determination may fall as early as March 22nd or as late as April 25th. The festival of Easter affects many business activities and accordingly influences many statistics of business with the result that the true comparative significance of these activities and statistics can only be deduced by taking into consideration the date of Easter and making appropriate adjustment for the variance. The weight and complexity of the considerations of religion which lie in the way of a fixed date for Easter need no emphasis. Possibly the religious observance of Easter could be left to a movable date and a secular spring festival be instituted for a fixed date which in this country might well be set late in April.

And when the problem of Easter has been finally solved attention might be turned to the stabilization of our mid-April weather which (by the experience of 1940 and 1941) may involve either mid-winter or midsummer temperatures and whose fickleness must upset business comparisons even more than the variable date of Easter does.

* * *

PROBLEMS AND SOLUTIONS

Solutions presented in this section are prepared by practising members of the several provincial Institutes and represent the personal views and opinions of those members. They are designed not as models for submission to the examiner but rather as such discussion and explanation of the problem as will make its study of benefit to the student. Discussion of solutions presented is cordially invited.

PROBLEM I

THE PROVINCIAL INSTITUTES OF CHARTERED ACCOUNTANTS

FINAL EXAMINATION, DECEMBER, 1940

Accounting IV. Question 1 (30 marks)

The general ledger trial balance as at 31st December 1939 of the head office of the A. B. C. Manufacturing Company Limited, a Canadian company, was as follows:

Cash	$	40,000
Accounts receivable		45,000
Raw materials on hand, 1st January 1939		15,000
Goods in process, 1st January 1939		5,000

Finished goods on hand, 1st January 1939	25,000	
Factory land	40,000	
Factory building	150,000	
Factory machinery and equipment	100,000	
Furniture and fixtures	10,000	
Reserve for depreciation—Factory building		$ 15,000
Reserve for depreciation — Factory machinery and equipment		40,000
Reserve for depreciation—Furniture and fixtures		4,000
Accounts payable		47,000
Current account—English branch	251,000	
Sales		500,000
Raw material purchases	297,000	
Direct labour	172,000	
Manufacturing expense	65,000	
Selling expense	85,000	
General expense	72,000	
Finished goods shipped to English branch, at cost		221,000
Capital stock		200,000
Surplus, 1st January 1939		119,000
Remittances from English branch		224,000
Reserve for exchange fluctuations		2,000
	$1,372,000	$1,372,000

The head office inventories as at 31st December 1939 were as follows:

Raw materials	$ 20,000
Goods in process	10,000
Finished goods	22,000

The general ledger trial balance as at 31st December 1939 of the English branch of the company was as follows:

Current account—Head office		£ 55,000
Remittances to head office	£ 48,000	
Furniture and fixtures	1,000	
Reserve for depreciation—Furniture and fixtures....		400
Merchandise from head office	50,000	
Freight on merchandise from head office	5,000	
Cash	8,000	
Accounts receivable	6,000	
Merchandise on hand, 1st January 1939	2,000	
Selling expense	3,000	
General expense	2,000	
Accounts payable		2,000
Sales		67,600
	£125,000	£125,000

The merchandise on hand at the English branch on 31st December 1939 was valued at £1,000.

Provision for depreciation for the year ended 31st December 1939 has yet to be made in the accounts of both the head office and the English branch. The following rates, based upon the closing balances in the asset accounts, are to be used:

Factory building	2½% per annum
Factory machinery and equipment	10 % per annum
Furniture and fixtures	10 % per annum

No remittances and no merchandise were in transit between the head office and the English branch as at 31st December 1939.

For the purposes of the problem, it is to be assumed that the rates of exchange for the English pound were as follows:

Rate at the time when the furniture and fixtures were purchased	$4.85
Current rate at 1st January 1939	$4.65
Average rate for the year 1939	$4.50
Current rate at 31st December 1939	$4.35

From the foregoing information you are required to prepare in Canadian currency:

(a) Statement showing cost of goods manufactured for the year ended 31st December 1939;

(b) Profit and loss statement, in columnar form, for the year ended 31st December 1939, showing the operating accounts of both the head office and the English branch as well as the combined totals;

(c) Balance sheet as at 31st December 1939, showing only the combined totals of the accounts of the head office and the English branch.

Income taxes are to be ignored.

All fixed assets and inventories are stated at cost.

SOLUTION

(a)

A. B. C. MANUFACTURING COMPANY LIMITED

STATEMENT SHOWING COST OF GOODS MANUFACTURED
FOR THE YEAR ENDED 31ST DECEMBER 1939

Raw materials used:		
Raw materials on hand, 1st January 1939		$ 15,000
Raw materials purchased		297,000
		312,000
Less Raw materials on hand, 31st December 1939		20,000
		292,000
Direct labour		172,000
Manufacturing expense:		
Depreciation:		
Factory building, 2½%	$ 3,750	
Factory machinery and equipment, 10%	10,000	
	13,750	
Other manufacturing expenses	65,000	78,750
		542,750
Deduct:		
Increase in goods in process:		
Goods in process, 31st December 1939	10,000	
Goods in process, 31st January 1939	5,000	5,000
Cost of goods manufactured		$537,750

(b)

A. B. C. MANUFACTURING COMPANY LIMITED
PROFIT AND LOSS STATEMENT
FOR THE YEAR ENDED 31ST DECEMBER 1939

	Head office	*English branch*	*Total*
Sales	$500,000	$304,200	$804,200
Cost of goods sold:			
Finished goods on hand, 1st January 1939	25,000	9,300	34,300
Cost of goods manufactured	537,750	....	537,750
Cost of goods shipped to English branch	221,000*	221,000	....
Freight	....	22,500	22,500
	341,750	252,800	594,550
Less Finished goods on hand, 31st December 1939	22,000	4,350	26,350
	319,750	248,450	568,200
Gross profit	180,250	55,750	236,000
Selling and general expenses:			
Selling expense	85,000	13,500	98,500
General expense	72,000	9,000	81,000
Depreciation, furniture and fixtures	1,000	485	1,485
	158,000	22,985	180,985
Net profit	$ 22,250	$ 32,765	$ 55,015

*Indicates deduction.

(c)

A. B. C. MANUFACTURING COMPANY LIMITED
BALANCE SHEET
AS AT 31ST DECEMBER 1939
ASSETS

Current assets:			
Cash			$ 74,800
Accounts receivable			71,100
Inventories at cost:			
Raw materials		$ 20,000	
Goods in process		10,000	
Finished goods		26,350	56,350
			202,250
Fixed assets:			
Factory land, at cost		40,000	
Factory building, at cost	$150,000		
Less Reserve for depreciation	18,750	131,250	
Factory machinery and equipment, at cost	100,000		

Less Reserve for depreciation	50,000	50,000	
Furniture and fixtures, at cost	14,850		
Less Reserve for depreciation	7,425	7,425	228,675
			$430,925

LIABILITIES AND CAPITAL

Current liabilities:			
Accounts payable			$ 55,700
Reserve for exchange fluctuations			1,210
Capital:			
Capital stock		$200,000	
Surplus:			
As at 1st Janunary 1939	$119,000		
Net profit for the year:			
Head office	22,250		
English branch	32,765	174,015	374,015
			$430,925

PROBLEM II

THE PROVINCIAL INSTITUTES OF CHARTERED ACCOUNTANTS

FINAL EXAMINATION, DECEMBER, 1940

Accounting IV. Question 2 (20 marks)

The Bunker Hill Realty Company Limited was incorporated on 2nd July 1939, with an authorized capital of 5,000 shares of $100.00 each, for the purpose of acquiring, developing, subdividing and selling real estate. The company immediately sold for cash 1,500 of its shares at par and acquired, for cash, a tract of several hundred acres of undeveloped real estate.

For several months thereafter the company's officials devoted all their time to developing the real estate referred to above and, by 29th February 1940 had completed the work of surveying, subdividing and improving the entire tract. It was decided to start marketing the real estate during March 1940 and, since certain lots were more valuable than others due to better location, the officials placed the following varying selling prices upon the 262 lots of equal size into which the tract had been subdivided:

90 lots at $1,000.00 each
60 lots at $ 900.00 each
112 lots at $ 500.00 each

Between 1st March and 30th June 1940, a number of the lots were disposed of, all under agreement for sale, the terms in each instance being 20% in cash and the balance in eight quarterly instalments of 10% each. No interest charge is made.

On 30th June 1940 no purchasers were in arrears under their agreements. At that time the company's general ledger trial balance was as follows:

Cash	$ 21,600	
Agreements for sale, arising from sales made in the following months:		
March 1940	30,800	
April 1940	15,200	
May 1940	19,200	
June 1940	31,200	
Purchase price of undeveloped real estate	100,000	
Surveying and subdividing real estate	5,000	
Improvements to property, grading, etc.	25,000	
Selling expenses	5,000	
General and administrative expenses:		
Eight months ended 29th February 1940	20,000	
Four months ended 30th June 1940	5,000	
Sales of developed real estate:		
Lots at $1,000.00 each		$ 70,000
Lots at $900.00 each		45,000
Lots at $500.00 each		11,000
Capital stock		150,000
Accounts payable		2,000
	$278,000	$278,000

Prepare a profit and loss statement for the year ended 30th June, 1940, and a balance sheet as at that date.

Income and excess profits taxes are to be ignored.

SOLUTION

Cost of real estate:

Purchase price	$100,000
Cost of surveying and subdividing	5,000
Cost of improvements, grading, etc.	25,000
General and administrative expenses to 29th February 1940	20,000
	$150,000

Apportioned cost of individual lots:

Selling price per lot	Number of lots	Product	Per cent of total	Apportioned cost: Total	Apportioned cost: Per lot
$1,000	90	$ 90,000	45	$ 67,500	$750
900	60	54,000	27	40,500	675
500	112	56,000	28	42,000	375
		$200,000	100	$150,000	

Analysis of sales, showing cash collected thereon:

	Agreements for sale	Sales	Cash Collected thereon
Sales in March 1940	$30,800	$ 44,000	$13,200
Sales in April 1940	15,200	19,000	3,800

Sales in May 1940	19,200	24,000	4,800
Sales in June 1940	31,200	39,000	7,800
	$96,400	$126,000	$29,600

Ratio of cash collections to sales 23.492%

BUNKER HILL REALTY COMPANY LIMITED
PROFIT AND LOSS STATEMENT
FOR THE YEAR ENDED 30TH JUNE 1940

	70 lots sold at $1,000 each	50 lots sold at $900 each	22 lots sold at $500 each	Total
Sales	$70,000	$45,000	$11,000	$126,000
Cost of developed real estate sold	52,500	33,750	8,250	94,500
Gross profit	$17,500	$11,250	$ 2,750	31,500
Selling expenses				5,000
Profit on sales				$ 26,500
Proportion thereof taken up as profits				6,225
General and administrative expenses				5,000
Net profit for the year				$ 1,225

BUNKER HILL REALTY COMPANY LIMITED
BALANCE SHEET
AS AT 30TH JUNE 1940

ASSETS

Cash	$ 21,600
Agreements for sale	96,400
Real estate	55,500
	$173,500

LIABILITIES AND CAPITAL

Accounts payable		$ 2,000
Deferred profits		20,275
Capital:		
Capital stock:		
Authorized—5,000 shares of $100 each	$500,000	
Issued and fully paid—1,500 shares of $100 each	150,000	
Surplus:		
Net profit for the year	1,225	151,225
		$173,500